

REFINITIV

DELTA REPORT

10-K

LSBK - LAKE SHORE BANCORP, INC.
10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	3515
CHANGES	408
DELETIONS	1408
ADDITIONS	1699

United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022December 31, 2023

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

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Commission File No.: 000-51821

Lake Shore Bancorp, Inc.

(Exact Name of Registrant as Specified in Its Charter)

United States

United States

(State or Other Jurisdiction

of Incorporation or Organization)

20-4729288

(I.R.S. Employer Identification No.)

31 East Fourth Street, Dunkirk, NY14048

(Address of Principal Executive Offices, including zip code)

(716) (716) 366-4070

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.01 per share	LSBK	

Securities registered pursuant to Section 12(g) of the Act: **None**.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of **June 30, 2022** **June 30, 2023** was **\$23,756,268** **\$18,262,409** based on the per share closing price as of **June 30, 2022** **June 30, 2023** on the Nasdaq Global Market for the registrant's common stock, which was **\$14.00** **\$10.77**.

There **were were 5,695,088 5,684,784** shares of the registrant's common stock, \$.01 par value per share, outstanding at **March** **March 18, 2024** **23, 2023**.

DOCUMENTS INCORPORATED BY REFERENCE:

Part of 10-K
where incorporated

Portions of the registrant's Proxy Statement for the **2023 2024** Annual Meeting of Stockholders

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LAKE SHORE BANCORP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2023
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PART I

PART I

Item 1. Business.

Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on Lake Shore Bancorp, Inc.'s current expectations regarding its business strategies, intended results and future performance. Words such as anticipates, expects, intends, plans, believes, estimates and variations of such words and expressions are intended to identify forward-looking statements. Such statements reflect management's current views of future events and operations. These forward-looking statements are based on information currently available as of the date of this report. It is important to note that these forward-looking statements are not guarantees of future performance and involve and are subject to significant risks, contingencies, and uncertainties, many of which are difficult to predict and are generally beyond our control. Potential risks and uncertainties that could cause our actual results to differ from those anticipated in any forward-looking statements include, but are not limited to, compliance with the Bank's Consent Order and an Individual Minimum Capital Requirement both issued by the Office of the Comptroller of the Currency, the Agreement with the Federal Reserve Bank of Philadelphia, data loss or other security breaches, including a breach of our operational or security systems, policies or procedures, including cyber-attacks on us or on our third party vendors or service providers, economic conditions, the effect of changes in monetary and fiscal policy, inflation, unanticipated changes in our liquidity position, climate change, increased unemployment, deterioration in the credit quality of the loan portfolio and/or the value of the collateral securing repayment of loans, reduction in the value of investment securities, the cost and ability to attract and retain key employees, regulatory or legal developments, tax policy changes, and our ability to implement and execute our business plan and strategy and expand our operations. These factors should be considered in evaluating forward looking forward-looking statements and undue reliance should not be placed on such statements, as our financial performance could differ materially due to various risks or uncertainties. We do not undertake to publicly update or revise our forward-looking statements if future changes make it clear that any projected results expressed or implied therein will not be realized.

General

Lake Shore Bancorp, Inc. ("Lake Shore Bancorp," the "Company," "us," or "we") operates as a mid-tier, federally chartered savings and loan holding company for Lake Shore Savings Bank ("Lake Shore Savings" or the "Bank"). A majority of Lake Shore Bancorp's issued and outstanding common stock (63.7% (63.96% as of December 31, 2022 December 31, 2023) is held by Lake Shore, MHC (the "MHC"), a federally chartered mutual holding company, which serves as

the parent company to Lake Shore Bancorp. The remaining shares of common stock are owned by public stockholders and Lake Shore Saving Bank's Employee Stock Ownership Plan ("ESOP"). Our common stock is traded on the Nasdaq Global Market under the symbol "LSBK". Unless the context otherwise requires, all references herein to Lake Shore Bancorp or Lake Shore Savings include Lake Shore Bancorp and Lake Shore Savings on a consolidated basis.

Lake Shore, MHC

Lake Shore, MHC was organized in 2006 as a federally chartered mutual holding company. The MHC does not engage in any substantial business activity other than its investment in a majority of the common stock of Lake Shore Bancorp. The Board of Governors of the Federal Reserve System (the "Federal Reserve Board") is the regulator for the MHC. Federal law and regulations require that as long as the MHC is in existence, it must own at least a majority of Lake Shore Bancorp's common stock.

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Lake Shore Bancorp, Inc.

Lake Shore Bancorp, Inc. was organized in 2006 for the purpose of acting as the savings and loan holding company for Lake Shore Savings Bank in connection with the Company's initial public stock offering. The Company, a federal corporation, is regulated by the Federal Reserve Board. The Company owns all of the issued and outstanding capital stock of Lake Shore Savings Bank.

Lake Shore Savings Bank

Lake Shore Savings Bank was chartered as a New York savings and loan association in 1891. In 2006, the Bank converted from a New York-chartered mutual savings and loan association to a federal savings bank charter. The Bank is subject to the supervision and regulation of the Office of the Comptroller of the Currency ("OCC").

Lake Shore Savings Bank's principal business consists of attracting retail deposits from the general public in the areas surrounding its branch offices and investing those deposits, together with funds generated from operations, primarily in commercial real estate loans, one- to four-family residential mortgage loans, home equity lines of credit and, to a lesser extent, commercial business loans, consumer loans, and investment securities. Our revenues are principally derived from interest earned on our loans and investment securities. Our primary sources of funds for lending and investments are deposits, borrowings, brokered deposits, receipts of principal and interest payments on loans and securities, proceeds from sales of loans or securities, maturities and calls of investment securities and income resulting from operations in prior periods.

Available Information

Lake Shore Bancorp's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on our website, www.lakeshoresavings.com, on the "Investor Relations" page under "About Us". Such reports are also available on the Securities and Exchange Commission's website at www.sec.gov. Information on our website shall not be considered a part of this Form 10-K.

Market Area

Lake Shore Savings Bank is a community bank that offers a variety of banking products to serve the market areas surrounding our eleven branch offices located within the Western New York region of New York State.

Our geographic market area for loans and deposits is principally located within Erie and Chautauqua Counties within of Western New York. As of the most recent United States Census Bureau population census as of July 1, 2021 July 1, 2022, Erie and Chautauqua Counties had an estimated combined population of approximately 1.0 million 1.1 million. Our market area is bounded by Lake Erie to the west and Canada to the north, and includes the city of Buffalo, the second largest metropolitan area in the State of New York by population. The market area includes 11 several hospitals, a medical school and a major cancer research and treatment facility, along with a centralized medical campus to cultivate clinical care, research, education and entrepreneurship. The area has several colleges and universities, community colleges and various vocational and technical schools. Western New York is home to professional sports franchises and an international airport. The area hosts a broad diversity of industry, commercial establishments and financial institutions as well as a skilled and productive workforce.

New York State currently has several incentive programs for businesses to invest in the Western New York region. One example is the "Start-Up NY" program, which offers tax incentives to start, expand or relocate a qualified business to a tax-free area within the state, primarily near a university or community college campus, in order to access top talent and research facilities. Qualified businesses for this program include advance materials & manufacturing, biotech & life

sciences, tech & electronics, and optics & imaging. This program has generated significant interest in Western New York for new business development due to its proximity to

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Canada, history of being a strong industrial and manufacturing center, and the number of quality colleges and universities in the area.

The Erie County region and the City of Buffalo experienced strong economic expansion prior to the onset of the COVID-19 pandemic, including major growth in the health care and education sectors, and resurgence in the central business district, which has led to an influx of private investment in development of hotels and housing in the downtown sector. The Buffalo Niagara Medical Campus has grown significantly with the construction of a new children's hospital, expansion of an existing cancer/research hospital and construction of a new medical school by the State University of New York at Buffalo. Development on the waterfront has centered on redevelopment of property for mixed use, including public access and private development that includes office space, ice rinks, hotels and restaurants. There has also been an increased interest in innovative start-up companies, driven by the investment of 43North, which holds an annual competition enhanced by significant funding to attract innovative start-up companies to relocate to Buffalo, NY. This type of economic

development has had a positive impact on the small business and middle-market customers that we focus on and we believe we will be able to capitalize on opportunities created by this economic growth. Although the COVID-19 pandemic slowed down certain aspects of economic development and economic activity, during 2020 through 2022, the regional economy remains diversified, the housing market remains strong and various commercial and housing development projects continue to move forward. The lending opportunities in our market area remain dynamic and we believe that such activity will continue. continue.

Our primary market area has historically been stable, with a diversified base of employers and employment sectors. The local economies that we serve are not dependent on one key employer. Transportation equipment is a large manufacturing industry in the Buffalo area, as well as production of automobile component parts. The principal employment sectors are service-related, wholesale and retail trade, and durable-goods manufacturing.

Our future growth will be influenced by the strength of our regional economy, other demographic trends and the competitive environment. We believe that we have developed lending products and marketing strategies to address the credit-related needs of the residents and small businesses we serve in our local market area.

Competition

We face intense competition both in making loans and attracting deposits. Western New York has a significant number of financial institutions, including a super regional bank which has its headquarters in Buffalo, NY, and branches of large money centers and regional and super regional banks which have resulted from the consolidation of the banking industry in New York and surrounding states. Many of these competitors have greater resources and offer additional services than we do. We also face significant competition from online service providers who offer financial services, including loan and deposit products.

Our competition for loans comes principally from commercial banks, savings banks, mortgage banking companies, credit unions, online retail mortgage lenders and other financial service companies. The most direct competition for deposits comes from commercial banks, savings banks, credit unions, and online banks. We face additional competition for deposits from non-depository competitors such as mutual funds, securities and brokerage firms and insurance companies. We are significantly smaller than many of the financial institution competitors in our market area. Some of our competitors are not subject to the same degree of regulation as that imposed on federal savings banks or federally insured institutions, and these other institutions may be able to price loans and deposits more aggressively. Competition for deposits for and the origination of loans and the provision of other financial services may limit the Company's growth and adversely impact its profitability in the future.

We expect competitive pressure to remain intense primarily due to technological advances and the continuing trend of consolidation in the financial services industry. Technological advances have lowered barriers to entry in our local market area by allowing banks to expand their geographic reach by providing services over the internet and have made it possible for non-depository institutions, including fintech companies,

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to offer products and services that have traditionally been provided by banks. We believe the primary factors in competing for deposits and loans is through personalized service, knowledge of the local market area and its economy, local decision making, technological convenience via mobile and online banking and active participation and support of the communities we serve.

Lending Activities

General. Our principal lending activity is the origination of fixed rate and adjustable rate mortgage loans collateralized by commercial and residential real estate primarily located within our market area. The Bank also originates commercial business loans, home equity loans and consumer loans. We retain the majority

of loans that we originate. However, we may sell residential mortgage loans into the secondary market, with retention of servicing rights, in order to manage interest rate and liquidity risk when deemed appropriate. Additional efforts to manage interest rate risk include the origination of shorter-term, adjustable rate loans.

The loan portfolio composition table is set forth in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this Report.

Loan Maturity. The following tables presents present the contractual maturity of our gross loans at December 31, 2022 December 31, 2023 and sets forth our fixed and adjustable rate loans at December 31, 2022 December 31, 2023, that are contractually due after December 31, 2023 December 31, 2024.

The table does not include the effect of prepayments or scheduled principal amortization. Loans having no stated repayment schedule or maturity and overdraft loans are reported as being due in one year or less.

	Real Estate			Other Loans		
	Residential, One- to					
	Four-Family ⁽¹⁾	Home Equity	Commercial ⁽²⁾	Commercial	Consumer	Total
(Dollars in thousands)						
Amounts due in:						
One year or less	\$ 48	\$ 259	\$ 25,166	\$ 6,476	\$ 736	\$ 32,685
After one year through five years	1,878	2,920	67,686	4,366	394	77,244
After five year through 15 years	35,319	30,711	223,897	5,704	—	295,631
Beyond 15 years	134,760	17,979	237	—	—	152,976
Total	<u>\$ 172,005</u>	<u>\$ 51,869</u>	<u>\$ 316,986</u>	<u>\$ 16,546</u>	<u>\$ 1,130</u>	<u>\$ 558,536</u>
Interest rate terms on amounts due after one year:						
Fixed rate	\$ 168,551	\$ 7,700	\$ 81,811	\$ 7,598	\$ 394	\$ 266,054
Adjustable rate	3,406	43,910	210,009	2,472	—	259,797
Total	<u>\$ 171,957</u>	<u>\$ 51,610</u>	<u>\$ 291,820</u>	<u>\$ 10,070</u>	<u>\$ 394</u>	<u>\$ 525,851</u>

	Real Estate			Other Loans		
	Residential, One- to Four-Family ⁽¹⁾	Home Equity	Commercial	Construction - Commercial	Commercial	Consumer
	Family ⁽¹⁾					
(Dollars in thousands)						
Amounts due in:						
One year or less	\$ 101	\$ 1,031	\$ 2,875	\$ 7,134	\$ 8,939	\$ 743
After one year through five years	2,222	2,498	69,586	8,106	5,204	474
After five year through 15 years	33,468	36,647	231,255	7,678	5,433	-
Beyond 15 years	140,113	12,881	321	-	-	-
Total	<u>\$ 175,904</u>	<u>\$ 53,057</u>	<u>\$ 304,037</u>	<u>\$ 22,918</u>	<u>\$ 19,576</u>	<u>\$ 1,217</u>
Interest rate type on amounts due after one year:						
Fixed rate	\$ 171,934	\$ 4,975	\$ 82,996	\$ 1,106	\$ 8,600	\$ 474
Adjustable rate	3,869	47,051	218,166	14,678	2,037	-
Total	<u>\$ 175,803</u>	<u>\$ 52,026</u>	<u>\$ 301,162</u>	<u>\$ 15,784</u>	<u>\$ 10,637</u>	<u>\$ 474</u>

(1)

(1)

Includes one- to four-family construction loans.

(2) Includes commercial construction loans.

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The following table presents our loan originations, purchases, sales, and principal repayments for the years indicated.

	For the Year Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Total Loans:		
Balance outstanding at beginning of year	\$ 519,779	\$ 526,632
Originations:		
Real estate loans:		
Residential, one- to four-family ⁽¹⁾	39,991	50,081
Home equity	20,833	20,457
Commercial	48,031	47,333
Construction – Commercial	40,149	28,036
Other loans:		
Commercial ⁽²⁾	7,607	21,971
Consumer	631	731
Total originations	157,242	168,609
Deduct:		
Principal repayments:		
Real estate loans	86,805	121,207
Commercial and consumer loans	11,909	40,255
Total principal repayments	98,714	161,462
Transfers to foreclosed real estate	216	258
Loan sales - SONYMA ⁽³⁾ & FHLMC ⁽⁴⁾	1,309	13,264
Loans charged off	73	478
Total deductions	100,312	175,462
Balance outstanding at end of year	\$ 576,709	\$ 519,779

	For the Year Ended December 31,	
	2023	2022
	(Dollars in thousands)	
Total Loans:		
Balance outstanding at beginning of year	\$ 576,709	\$ 519,779
Originations:		
Real estate loans:		
Residential, one- to four-family ⁽¹⁾	12,496	39,991
Home equity	13,470	20,833
Commercial ⁽²⁾	26,400	88,180
Other loans:		
Commercial	3,560	7,607
Consumer	410	631
Total originations	56,336	157,242
Deduct:		
Principal repayments:		
Real estate loans	67,359	86,805

Commercial and consumer loans	7,029	11,909
Total principal repayments	74,388	98,714
Transfers to foreclosed real estate	60	216
Loan sales - SONYMA ⁽³⁾ & FHLMC ⁽⁴⁾	—	1,309
Loans charged off	61	73
Total deductions	74,509	100,312
Balance outstanding at end of year	\$ 558,536	\$ 576,709

⁽¹⁾ Includes one- to four-family construction loans.

⁽²⁾ Includes commercial construction loans.

⁽³⁾ The 2021 loan originations include the origination of \$11.4 million of Paycheck Protection Program ("PPP") loans which are 100% guaranteed by the Small Business Administration ("SBA").

⁽³⁾ State of New York Mortgage Agency.

⁽⁴⁾ During 2023, we sold \$1.0 million of long-term fixed rate residential mortgage loans with low yields to the Federal Corporation ("FHLMC") in order to offset long-term interest rate risk.

Commercial Real Estate Loans. We remained focused on originating commercial real estate loans and have assembled a strong team of loan officers to grow this portfolio. As such, the Bank's primary lending activity is the origination of commercial real estate loans to finance the purchase of real property or to refinance real property. Real property generally consists of developed real estate, such as multi-family apartment complexes, office buildings, warehouses, hotels, restaurants, retail properties, mixed use properties, and self-storage units and multi-family apartment complexes and is typically held as collateral for the loan. For the majority of our commercial real estate loan portfolio, the collateral is primarily located within the Bank's primary market area, Erie and Chautauqua Counties. At December 31, 2022, commercial real estate loans totaled \$304.0 million and represented 52.7% of the Bank's total loan portfolio. Commercial real estate loans that are collateralized by residential properties and multi-family apartment complexes made up 47.4% of the commercial real estate loan portfolio as of December 31, 2022 and totaled \$156.2 million. Commercial real estate loans that are collateralized by non-residential real estate amounted to \$170.3 million, or 56.7% of the commercial real estate loan portfolio at December 31, 2023. Of this amount, \$24.0 million, or 8.0% of the commercial real estate loan portfolio, related to the accommodation (hotel) and food services sector. In underwriting commercial real estate loans, consideration is given to historic and expected net operating income generated by the real estate, the age and condition of the collateral, the financial resources and income level of the borrower and any guarantors, current and projected occupancy levels, location of the property, and the borrower's business experience. Our

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commercial real estate loans are appraised by third party independent appraisers approved by the board of directors. Personal guarantees are typically obtained from commercial real estate borrowers.

We originate a variety of fixed and adjustable-rate commercial real estate loans generally for terms of five to 10 years and payments based on an amortization schedule of up to 20 to 25 years. Adjustable-rate loans are typically based on an index such as the prime rate or the FHLBNY advance rates with an added spread based on the type, size and risk of the loan. The rate is typically fixed for the first five years of the loan. Some adjustable-rate loans are subject to an interest rate floor. We typically lend up to a maximum loan-to-value ratio of 50% to 80% depending on the type and condition of the

property being financed. Commercial real estate loans require a minimum debt service coverage ratio ranging from 1.15 to 1.50 depending on the type of property being financed and the strength of the personal guarantees of the owners. Fixed rate loans are typically subject to prepayment premiums if the loan is paid off within five years of origination and prior to the scheduled maturity.

Commercial real estate loans have larger balances and involve a greater degree of risk than one- to four-family residential loans. Of primary concern in multi-family and nonresidential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by nonresidential properties often depend on the successful operation and management of the properties or underlying businesses. As a result, repayment of such loans may be subject to a greater extent, than residential real estate loans, to adverse conditions in the real estate market or the economy. To monitor cash flows on nonresidential properties, we require borrowers and/or loan guarantors to provide annual financial statements on larger multi-family and commercial real estate loans. In reaching a decision on whether to make a multi-family or nonresidential real estate loan, we consider the net cash flow of the project, the borrower's expertise, credit history and the value of the underlying property. In addition, we monitor the tenancy of the properties as to occupancy, lease rates, term of lease and tenant credit worthiness. Commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers, which generally require substantially greater evaluation and oversight efforts. Our loan policies limit the amount of loans to a single borrower or group of borrowers to reduce this

risk and are designed to set such limits within those prescribed by applicable federal statutes and regulations. We engage a third party to periodically conduct a credit review of the commercial real estate portfolio, including compliance with the Bank's underwriting standards and policy requirements. In addition, we engage a third party to perform property site inspections on an annual basis as required by our Commercial Loan Policy.

Commercial Construction. We originate loans primarily to established local developers to finance the construction of commercial and multi-family properties. We provide construction loans to local developers for the construction of one-to four-family residential developments. We also originate rehabilitation loans, enabling a borrower to partially or totally refurbish an existing structure, which are structured as construction loans and monitored in the same manner.

These loans typically have a construction period of up to 24 months or longer, whereby draws are taken and interest only payments are made. As part of the draw process, inspection and lien checks are required prior to the disbursement of the proceeds. Interest rates on disbursed funds are based on the rates and terms set at closing. The majority of our commercial real estate construction loans are variable rate loans with rates tied to the prime rate, plus a premium. A floor rate may also be established in conjunction with a variable rate loan. A minimum of interest only payments on disbursed funds must be made on a monthly basis during the construction period. At the end of the construction period, the loan may convert to a commercial real estate mortgage. At **December 31, 2022** **December 31, 2023**, construction loans totaled **\$22.9 million** **\$16.4 million**, or **4.0%** **2.9%** of the total loan portfolio.

Construction loans can be affected by economic conditions and the value of the underlying property. Construction loans may have additional risks related to advancing loan funds during construction due to the uncertain value of the property prior to the completion of construction. The repayment of a construction loan is, to a large degree, dependent on the successful and timely completion of the construction of the subject property. Construction delays may further impair the borrower's ability to repay the loan. The Bank limits its risks during

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the construction period as disbursements are not made until the required work for each advance has been completed and a lien check has been performed.

One- to Four-Family Residential Mortgage Lending. At **December 31, 2022** **December 31, 2023**, our one- to four-family residential loans (including residential construction loans) totaled **\$175.9 million** **\$172.0 million** and represented **30.5%** **30.8%** of the total loan portfolio. Our residential mortgage loan originations are obtained from customers, residents of our local communities or referrals from local real estate agents, brokers, attorneys, or builders. The majority of residential loans originated are fixed rate loans; although we do offer adjustable rate loan products to our customers. Lake Shore Savings has historically retained the majority of residential mortgage loans that it originates. This may increase Lake Shore Savings exposure to interest rate risk with the recent increases in market interest rates, because the yield earned on fixed-rate assets would remain fixed, while the rates paid by Lake Shore Savings for deposits and borrowings may increase, which could result in lower net interest income. In an effort to manage interest rate risk, the Bank has begun in recent years to sell long term, lower yielding, fixed rate residential mortgages at origination in the secondary market, with servicing retained.

One- to four-family residential mortgage loan originations are generally for terms up to 30 years; however, we do offer and have successfully originated loans with shorter terms of 10, 15, or 20 years. One- to four-family residential real estate loans may remain outstanding for significantly shorter periods than their contractual terms as borrowers may refinance or prepay loans at their option without penalty. Conventional one- to four-family residential mortgage loans originated by us customarily contain "due-on-sale" clauses that permit us to accelerate the indebtedness of the loan upon transfer of ownership of the mortgaged property. We do not offer "interest only" mortgage loans or "negative amortization" mortgage loans.

Our residential lending policies and procedures ensure that the majority of one- to four-family residential mortgage loans generally conform to secondary market guidelines, although we also originate non-conforming loans. We underwrite all conforming loans (i.e. loans with less than a **\$647,200** **\$726,200** loan balance during **2022** **2023**) using the criteria required by the Federal Home Loan Mortgage Corporation ("FHLMC"). We originate one- to four-family residential mortgage loans with a loan-to-value ratio up to 100%, and up to 101% with our United States Department of Agriculture ("USDA") Rural Development Guaranteed Loan Program ("GLP") mortgage loan product. Mortgages originated with a loan-to-value ratio exceeding 80% normally require private mortgage insurance.

During **2022**, we sold **\$1.3 million of fixed rate, conforming long-term** **2023**, there were no one- to four-family residential mortgage loans **with low yields at sold to the time of origination in order to manage interest rate risk, secondary mortgage market**. We may **also** offer loans through programs offered by the State of New York Mortgage Agency ("SONYMA") which are originated for sale. We retain all servicing rights for one- to four-family residential mortgage loans that we sell.

We also originate loans above the lending limit for conforming loans, which we refer to as "jumbo loans." We originate jumbo loans with fixed-rates and terms of up to 30 years. At **December 31, 2022** **December 31, 2023**, jumbo loans totaled **\$8.0 million** **\$5.7 million**, or **4.6%** **3.3%** of the one- to four-family residential mortgage portfolio. Jumbo loans carry greater risk than conforming loans as there are a limited number of potential buyers for this type of real estate which results in greater price volatility. As a result, these loan types are subject to more conservative underwriting requirements.

We originate one- to four-family mortgage loans on non-owner occupied properties that the borrower holds for investment purposes. These loans have a higher interest rate and shorter **term terms** than loans for an owner-occupied property. The loans typically have a fixed interest rate, terms up to 25 years and a loan to value ratio up to 75%. As of **December 31, 2022** **December 31, 2023** these loans represented **\$19.4 million** **\$20.7 million** or **11.0%** **12.0%** of the one- to four-family residential mortgage portfolio.

We offer adjustable rate mortgage loans with a maximum term of 30 years. When an adjustable rate mortgage is originated, the initial interest rate is established based on market conditions and competitor rates. The rate adjusts annually after one, five, or seven years, depending on the loan product. After the initial fixed

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rate time period, the interest rate on these loans will re-price based upon a specific U.S. Treasury index plus an additional margin, taking into consideration the cap and floor rates established at the time of loan origination.

The retention of adjustable rate one- to four-family residential mortgage loans in our loan portfolio helps reduce our exposure to changes in interest rates. However, there are unquantifiable credit risks resulting from potential increased costs to the borrower as a result of the pricing of adjustable rate residential mortgage loans. During periods of rising interest rates, the risk of default on one- to four-family residential adjustable rate mortgage loans may increase due to the increase of interest cost to the borrower. Furthermore, changes in the interest rates on adjustable rate mortgages may be limited by an initial fixed-rate period or by contractual limits on periodic interest rate adjustments, and as such adjustable rate loans may not adjust as quickly as our interest-bearing liabilities during a period of rapid increases in interest rates. **During periods of decreasing interest rates, prepayments on adjustable rate loans may increase if the borrower can obtain a lower fixed interest rate, which may cause a decrease in loan yields with an offsetting increase in interest rate risk.**

Lake Shore Savings originates construction-to-permanent loans for the purpose of construction of primary and secondary residences. The Bank issues a commitment and has one closing which encompasses both the construction phase and permanent financing. The construction phase is a maximum of twelve months and requires the borrower to make interest only payments at the rate stated in the loan agreement. The loan to value on construction-to-permanent loans cannot exceed 80.0% of the estimated completed value at the end of the project.

One- to four-family real estate loans can be affected by economic conditions and the value of the underlying collateral. The majority of our one- to four-family residential loans are **backed secured** by property located in Western New York and are affected by economic conditions in this market area. Western New York's housing market has consistently demonstrated stability in home prices **despite economic conditions**, resulting in stable collateral value and lower risk of loss.

Construction lending generally involves a greater degree of risk as the repayment of the loan is dependent on the successful and timely completion of the project. Lake Shore Savings completes inspections during the construction phase prior to any disbursements, which limits the Bank's risk. Construction delays may impair the borrower's ability to repay the loan.

Home Equity Loans and Lines of Credit. We currently provide all-in-one home equity lines of credit and have provided home equity loans in the past to our customers. Home equity lines of credit are generally made for owner-occupied homes, and are secured by first or second mortgages on residences. At **December 31, 2022** **December 31, 2023**, home equity loans and lines of credit totaled **\$53.1 million** **\$51.9 million** and represented **9.2%** **9.3%** of the total loan portfolio. The all-in-one home equity line of credit must have a minimum line amount of \$5,000 up to a maximum of 90% of the total loan-to-value ratio for qualified borrowers. The all-in-one home equity line of credit product has interest rates tied to the prime rate and generally **have has** a 15 year draw period and a 15 year payback period. Since 2010, our adjustable rate home equity loans include limits on decreases in the interest rate of the loan. The decrease in the interest rate may not be below the "floor" rate established at the time of origination. A customer has the option to convert either a portion, or the entire line of credit balance, to a term loan at a fixed rate of interest. As the customer pays down the balance on the term loan, the funds available on the line of credit increase by a like amount. All-in-one home equity lines of credit have 30 year maximum terms.

Home equity loans can be affected by economic conditions and the value of the underlying property. Home equity loans may have increased risk of loss if the Company does not hold the first mortgage resulting in the Company being in a secondary position in the event of collateral liquidation. At **December 31, 2022** **December 31, 2023**, home equity loans and lines of credit where the Company does not hold the first mortgage represented **31.3%** **40.1%** of the outstanding principal within our home equity loan portfolio. During periods of rising interest rates, the risk of default on home equity loans may increase due to the increase of interest cost to the borrower.

In 2020, we began offering an investment property line of credit which is similar to our home equity line of credit product. The investment property line of credit loans are generally made for non-owner occupied one-

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to four-family residential properties with a first-lien position and a loan to value ratio up to 70%. The loan has a 10-year draw period. At the end of the draw period, the line is restricted, and the outstanding balance of the loan is amortized over a 10-year repayment period. The investment property line of credit have interest rates tied to the prime rate.

Commercial Loans. In addition to commercial real estate loans, we also engage in commercial business lending, (also known as C&I lending) primarily to small businesses. A commercial business loan may be a business installment loan, line of credit, or other commercial loan. At December 31, 2022 December 31, 2023, commercial business loans totaled \$19.6 million \$16.5 million, or 3.4% 3.0% of the total loan portfolio. Most of our commercial business loans have fixed interest rates, and are for terms generally not in excess of five years. In underwriting commercial business loans, consideration is typically given to the financial condition and the debt service coverage capabilities of the borrower/operating entity, projected cash flows and collateral value. Whenever possible, we collateralize these loans with a first lien on general business assets and a specific lien on the equipment being purchased and require personal guarantees from principals of the borrower. We offer commercial loan services designed to give business owners borrowing opportunities for modernization, inventory, equipment, construction, real estate, purchases or improvements, working capital, vehicle purchases, and the refinancing of existing corporate debt.

Commercial business loans are generally considered to involve a higher degree of risk than residential mortgage loans because the collateral underlying the loans may be in the form of furniture, fixtures, and equipment and/or inventory subject to market obsolescence and accounts receivable which must be monitored. Commercial business loans may also involve relatively large loan balances to single borrowers or groups of related borrowers, with the repayment of such loans typically dependent on the successful operation and income stream of the borrower's operation. Such risks can be significantly affected by economic conditions. In addition, commercial business lending generally requires substantially greater oversight efforts compared to residential real estate lending. Accordingly, the repayment of a commercial loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and may be an insufficient source of repayment. We engage a third party to conduct an annual credit review of the commercial business loan portfolio, including compliance with the Bank's underwriting standards and policy requirements. requirements.

Consumer Loans. To a lesser extent, we offer a variety of consumer loans. At December 31, 2022 December 31, 2023, consumer loans totaled \$1.2 million \$1.1 million, or less than 1% 0.2% of the total loan portfolio. Generally, the volume of consumer lending has declined as borrowers have opted for home equity lines of credit, which have lower interest rates. The largest component of our consumer loan portfolio are personal consumer loans and overdraft lines of credit. Our consumer loan portfolio also consists of vehicle loans, loans secured by certificates of deposit, secured and unsecured property improvement loans, and other secured loans.

Consumer loans tend to have a higher credit risk due to the loans being either unsecured or secured by rapidly depreciable assets. Furthermore, consumer loan payments are dependent on the borrower's continuing financial stability.

and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. The application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on consumer loans in the event of a default.

Loan Participations. From time to time, we may originate a commercial real estate loan or commercial business loan which may exceed our internal lending or concentration limits and sell a portion of the loan to another community bank. The participating bank is typically located in New York State and its lending team is known by our commercial lenders. This allows our Bank to meet the needs of its customers and comply with its internal lending limits. In some instances, we may purchase participation interests in loans where we are not the lead lender. In both of these circumstances, we follow our customary loan underwriting and approval policies. We have strong relationships with other community banks in our primary market area that may desire to purchase participations, and we may increase our sales of participations in the future, if deemed appropriate. At December 31, 2022 December 31, 2023, our sold participations in commercial real estate and commercial business loans totaled \$20.7 million \$6.0 million and \$258,000, \$242,000, respectively, all of which were collateralized by properties or business assets within our primary market area in Western New York. We may also purchase commercial real estate loan or commercial business loan participations in the future if deemed appropriate and at December 31, 2022 December 31, 2023, our purchased participations

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all in commercial real estate and commercial business loans totaled \$230,000, \$6.4 million and \$194,000, respectively. All of the Bank's loan participations are collateralized by properties or business assets within our primary market area.

Loan Approval Procedures and Authority. Our lending policies are approved annually by our Board of Directors. Branch managers have the authority to originate home equity or consumer loans up to amounts approved by the Board of Directors. Home equity loans and consumer loans secured by real estate in excess of \$25,000 and all one- to four-family residential mortgage loans up to \$647,200 \$726,200 require approval by the Internal Residential Loan Committee; loans between \$647,200 \$726,200 and \$1.0 million, require approval of the Internal Residential Loan Committee and designated bank officers or loan committee member. Any of the above-mentioned loans with non-standard terms such as high loan-to-value ratios will require additional approval levels up to and including

approval by the **board** **Board** of **directors**. **Directors**. All non-commercial loans that are in excess of \$1.0 million, require **full approval from the Loan Committee of the Board approval**. **of Directors. Director loans require approval from the Board of Directors.**

Commercial Loan Officers have the authority to originate commercial real estate and commercial business loans up to amounts approved by the Board of Directors. Commercial loans with total one obligor credit in excess of \$100,000 and up to \$1.5 million require the approval of two members of the Internal Commercial Loan Committee, one of which must be a designated member of executive management. Commercial loans with total one obligor credit in excess of \$1.5 million and up to \$5.0 million require majority approval by the Board Loan Committee. Commercial loans with total obligor credit in excess of \$5.0 million require full Board approval. Loans with exceptions require a higher approval level.

Current Lending Procedures. Upon receipt of a completed loan application from a prospective borrower, we order a credit report and verify certain other information. If necessary, we obtain additional financial or credit related information. We require an appraisal for all residential and commercial real estate loans and home equity loans, including loans made to refinance existing mortgage loans. Appraisals are performed by licensed third-party appraisal firms. An appraisal management firm, approved by the Board of Directors has been engaged to handle all requests for appraisals on residential real estate loans. We require title insurance on all one- to four-family residential and commercial real estate loans and certain other loans. We also require property and casualty insurance on all real estate loans, and if applicable, we require borrowers to obtain flood insurance prior to closing. Based on loan-to-value ratios and lending guidelines, escrow accounts may be required for such items as real estate taxes, property and casualty insurance, flood insurance, and private mortgage insurance premiums.

Asset Quality

One of our key operating objectives has been, and continues to be, maintaining a high level of asset quality. Our high proportion of commercial real estate and one- to four-family residential mortgage loans primarily collateralized by property in Western New York, which historically has had stable property values, the maintenance of sound credit standards for new loan originations, our loan review procedures, including third party loan reviews, and strong executive management focus on credit quality have been factors in monitoring and managing our levels of credit risk. These factors have contributed to our strong financial condition.

Collection Procedures. We have adopted a loan collection policy to maintain adequate control on the status of delinquent loans and to ensure compliance with the Fair Debt Collection Practices Act, the Dodd-Frank Act, the Consumer Protection Act and the New York State Real Property Actions and Proceedings Law. When a borrower fails to make required payments on a residential, home equity, commercial, or consumer loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to a current status.

Prior to proceeding with any foreclosure action in the case of a secured loan, we will review the collateral to determine whether its possession would be cost-effective for us. In cases where the collateral fails to fully secure the loan, in addition to repossessing the collateral, we may also sue on the note underlying the loan.

Non-performing Loans and Non-performing Assets. Loans are periodically reviewed for performance. Management **determines that a loan is impaired or non-performing** **individually evaluates loans** when it is probable that at least a portion of

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the loan will not be collected in accordance with the original loan terms due to a deterioration in the financial condition of the borrower or in the value of the underlying collateral. When a loan is determined to be **impaired, individually evaluated**, the measurement of the loan is based on the present value of the expected future cash flows, or the fair value of the collateral, if the loan is collateral-dependent. If the **impaired measurement** value is less than the loan balance, the loss is recorded against the allowance for **loan credit** losses. Loans are placed on non-accrual status either when reasonable doubt exists as to the full timely collection of interest and principal, or when a loan becomes 90 days past due, unless an evaluation by **the internal Asset Classification Committee management** indicates that the loan is in the process of collection and is either guaranteed or well secured. When **our Asset Classification Committee management** designates loans on which we stop accruing interest income as non-accrual loans, we reverse outstanding interest income that was previously credited. We return a non-accrual loan to accrual status when factors indicating doubtful collection no longer exist and the borrower has performed for a period of at least six months.

Real estate acquired as a result of foreclosure is classified as foreclosed real estate until such time as it is sold. We record foreclosed real estate at its fair value less estimated selling costs at the date of acquisition. If a foreclosure action is commenced and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the property could be sold at the foreclosure sale (to an outside bidder). If not, and we retain the property, then we will sell the real property securing the loan as soon thereafter as practical. **During 2020 and 2021, foreclosure proceedings were delayed as a result of COVID-19, by the State of New York and the various lending agencies such as Freddie Mac, USDA, and SONYMA. The majority of these agencies ended the foreclosure moratoriums during 2021, but the State of New York allowed for further payment deferrals if the borrower could prove a COVID-19 impact. The New York state foreclosure moratorium ended on January 15, 2022.**

Troubled debt restructurings (“TDRs”) Loans modified due to borrowers experiencing financial difficulties occur when we grant borrowers concessions loan modifications that we would not otherwise grant but for economic or legal reasons pertaining to the borrower’s financial difficulties. A concession is made when the terms of the loan modification are more favorable than the terms the borrower would have received in the current market under similar financial difficulties. These concessions may include, but are not limited to, modifications of the terms of the debt, the transfer of assets or the issuance of an equity interest by the borrower to satisfy all or part of the debt, or the substitution or addition of borrower(s). The Company identifies loans for potential TDRs modifications related to borrowers experiencing financial difficulty primarily through direct communication with the borrower and evaluation of the borrower’s financial statements, revenue projections, tax returns and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future. Generally, we will not return a TDR loan modified due to a borrower experiencing financial difficulties to accrual status until the borrower has demonstrated the ability to make principal and interest payments under the restructured terms for at least six consecutive months. Our TDRs These loans are impaired individually evaluated loans, which may result in specific allocations of reserves within the allowance for loan credit losses and subsequent charge-offs, if appropriate.

Refer to Part II, Item 7 “Management Discussion and Analysis of Financial Condition and Results of Operations” and Part IV, Financial Statements, Note 2 and Note 5 elsewhere in this report for additional details on nonperforming loans, impaired loans and TDRs, individually evaluated loans.

Classification of Loans. Federal regulations require us to regularly review and classify our loans. In addition, our regulators have the authority to identify problem loans and, if appropriate, require them to be classified. Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality of the Company’s loan portfolio. The credit quality grade helps management make a consistent assessment of each loan relationship’s credit risk. Consistent with regulatory guidelines, the Company classifies loans and other assets considered of lesser quality. Such ratings coincide with the “Substandard”, Doubtful”, and “Loss” classifications used by federal regulators in their examination of financial institutions. A “Substandard” classification indicates that a loan has one or more

defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. A “Doubtful” classification has all the weaknesses of a “Substandard” classification with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable. Loans classified as “Loss” are considered uncollectible and continuance as an asset of the Company is no longer warranted.

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Regulations also provide for a “special mention” category (i.e. criticized loans), described as loans which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. When we classify loans as either substandard or doubtful, we set aside a loss reserve for such loans as we deem prudent. When we classify problem loans as loss, we typically charge-off the outstanding loan balance against the allowance for loan credit losses reserve. Our determination as to the classification of our loans and the amount of our loss allowances are subject to review by our regulators, which can require that we establish additional loss allowances. For further discussion on how management determines when a loan should be classified, refer to Note 5 in the consolidated financial statements located elsewhere in this report.

Allowance for Loan Losses, Credit Losses on Loans and Unfunded Commitments. On January 1, 2023, the Company adopted ASU 2016-13 (Topic 326), which replaced the incurred loss methodology with CECL for financial instruments measured at amortized cost and other commitments to extend credit. The allowance for loan credit losses on loans and unfunded commitments is a valuation account that reflects our evaluation allowance for management’s estimate of the expected credit losses inherent in our loan portfolio, the composition of the loan portfolio specific impaired loans and current economic conditions, commitments to extend credit. The process to determine expected credit losses utilizes analytic tools and judgment and is reviewed on a quarterly basis. We maintain the allowance through (credit) provisions for loan credit losses that we charge to income. We charge losses on loans against the allowance for loan credit losses when we believe the collection of the loan is unlikely, and all possible avenues of repayment have been analyzed, including the potential of future cash flow, the value of the underlying collateral, and strength of any guarantors or co-borrowers.

Our evaluation of risk in maintaining the allowance for loan credit losses includes the review of all loans on which the collectability of principal may not be reasonably assured. We consider the following qualitative and environmental factors as part of this evaluation: historical loan loss experience; payment status; the estimated value of the underlying collateral; changes in lending policies, procedures and loan review system; changes in the experience, ability, and depth of lending management and other relevant staff; trends in loan volume and the nature of the loan portfolio; and current and future national and local economic conditions. There may be other factors that may warrant consideration in maintaining an allowance at a level sufficient to provide for probable loan losses, the allowance. Although our management believes that it has established and maintained the allowance for loan credit losses to reflect losses inherent in our loan portfolio, based on its evaluation of the factors noted above, future additions may be necessary if economic and other conditions differ substantially from the current operating environment.

In addition, various regulatory agencies periodically review our allowance for **loan credit** losses as an integral part of their examination process. These agencies, including the Office of the Comptroller of the Currency, may require us to increase the allowance for **loan credit** losses or the valuation allowance for foreclosed real estate based on their evaluation of the information available to them at the time of their examination.

The allowance consists of allocated, general and unallocated components. The allocated component relates to loans that are considered impaired. For these loans an allowance is established when the discounted cash flows, collateral value or observable market price of an impaired loan is lower than the carrying value of the loan. Refer to Note 5 in the consolidated financial statements located elsewhere in this report for more information on our **impaired individually evaluated** loans. The general component covers all other loans and is based on historical loss experience adjusted for qualitative and environmental factors, as mentioned above. An unallocated component may be maintained to cover uncertainties that could affect management's estimate of probable losses, such as downturns in the local economy. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general losses in the portfolio.

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The following table presents our allocation of the allowance for **loan credit** losses by loan category and the percentage of loans in each category to total loans at the end of the years indicated. The allowance for **loan credit** losses allocated to each category is not necessarily indicative of inherent losses in any category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,							
	2022			2021				
	% of Allowance to Total		% of Loans in Category to	% of Allowance to Total		% of Loans in Category to		
	Amount	Allowance	Total Loans	Amount	Allowance	Total Loans		
	(Dollars in thousands)							
Real Estate Loans:								
Residential, one- to four-family ⁽¹⁾	\$	411	5.8%	30.5%	\$	383	6.3%	30.6%
Home equity		217	3.1%	9.2%		211	3.4%	9.2%
Commercial		5,398	76.4%	52.7%		4,377	71.5%	51.3%
Construction - Commercial		348	4.9%	4.0%		360	5.9%	4.2%
		6,374	90.2%	96.4%		5,331	87.1%	95.3%
Other loans:								
Commercial		509	7.2%	3.4%		531	8.7%	4.4%
Consumer		47	0.7%	0.2%		32	0.5%	0.3%
		556	7.9%	3.6%		563	9.2%	4.7%
Total allocated	\$	6,930	98.1%	100.0%	\$	5,894	96.3%	100.0%
Total unallocated		135	1.9%			224	3.7%	
Balance at end of year	\$	7,065	100.0%		\$	6,118	100.0%	

	At December 31,					
	2023			2022		
			% of Loans in			
	% of Allowance to	Category to Total		% of Allowance to	% of Loans in Category	
	Amount	Total Allowance	Loans	Amount	Total Allowance	to Total Loans
	(Dollars in thousands)					
Real Estate Loans:						
Residential, one- to four-family ⁽¹⁾	\$ 532	8.2 %	30.8 %	\$ 411	5.8 %	30.5 %
Home equity	213	3.3 %	9.3 %	217	3.1 %	9.2 %
Commercial ⁽²⁾	5,231	81.0 %	56.8 %	5,746	81.3 %	56.7 %
	5,976	92.5 %	96.9 %	6,374	90.2 %	96.4 %
Other loans:						
Commercial	471	7.3 %	3.0 %	509	7.2 %	3.4 %

Consumer	16	0.2 %	0.1 %	47	0.7 %	0.2 %
	487	7.5 %	3.1 %	556	7.9 %	3.6 %
Total allocated	\$ 6,463	100.0 %	100.0 %	\$ 6,930	98.1 %	100.0 %
Total unallocated	—	0.0 %		135	1.9 %	
Balance at end of year	\$ 6,463	100.0 %		\$ 7,065	100.0 %	

(1) Includes one- to four-family construction loans.

(2) Includes commercial construction loans.

For further discussion on how management evaluates its allowance for **loan credit** losses, refer to Note 5 in the consolidated financial statements located elsewhere in this report.

Investment Activities

General. The general objectives of the investment portfolio are to provide for the overall asset/liability management of the Bank. All of our securities carry market risk, as increases in market rates of interest may cause a decrease in the fair value of the securities. Our investment policy is designed primarily to manage the interest rate sensitivity of our assets and liabilities, to provide collateral for pledging requirements on borrowings, to generate a favorable return without incurring undue interest rate or credit risk, to complement our lending activities and to provide and maintain liquidity within established guidelines. Our investment policy outlines the pre-purchase analysis, credit, and interest rate risk assessment guidelines and due diligence documentation required for all permissible investments. In addition, our policy requires management to routinely monitor the investment portfolio as well as the markets for changes which may have a material, negative impact on the credit quality of our holdings. Our Board of Directors reviews and approves our investment policy on an annual basis. The Board of Directors has delegated primary responsibility for ensuring that the guidelines in the investment policy are followed to the Asset-Liability **Committee of the Board, Committee**. The board designates members of executive management with the authority to purchase securities within established plans and guidelines. All transactions are reviewed by the Asset/Liability **Committee of the Board of Directors which meets at least quarterly, Committee**.

In establishing our investment strategies, we consider our interest rate sensitivity, the types of securities to be held, liquidity and other factors. **The Company has engaged an independent financial advisor to recommend investment securities according to a plan which has been approved by the Asset/Liability Committee and the Board of Directors.** Federal savings banks have authority to invest in various types of assets, including

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U.S. Government obligations, securities of various federal agencies, obligations of states and municipalities, mortgage-backed and asset-backed securities, collateralized-mortgage obligations, certain time deposits of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements, loans of federal funds, and, subject to certain limits, corporate debt and commercial paper.

The Company has classified all of its investments in debt securities as "available for sale." The debt securities are reported at fair value, and unrealized gains and losses on debt securities are excluded from earnings and reported, net of deferred taxes, as a separate component of equity. Our current securities portfolio consists of collateralized mortgage obligations, mortgage backed securities, asset-backed securities, U.S. Government Agency bonds, and municipal bonds. Nearly all of our mortgage backed securities are directly or indirectly insured or guaranteed by FHLMC, the Government National Mortgage Association ("GNMA") or the Federal National Mortgage Association ("FNMA", or "Fannie Mae"). The municipal securities we invest in are fixed-rate investment grade bonds issued primarily by municipalities in New York State, have maturities of 20 years or less and many have private insurance guaranteeing repayment. The majority of municipal securities in our portfolio are unlimited general obligation bonds.

Fair values of available for sale securities are based on a market approach. Securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from our **custodian, which uses** third party data service **providers, provider**.

We also have investments in equity securities, specifically **FHLBNY Federal Home Loan Bank of New York ("FHLBNY")** stock, which must be held as a condition of membership in the Federal Home Loan Bank system. The level of investment is largely dependent on our level of borrowings from the FHLBNY. The investment in FHLBNY stock is considered restricted and is reported at cost on the consolidated statements of financial condition. The related changes in fair market value of equity securities **is are** reported in other non-interest income on the consolidated statements of income.

Classification of Investments. Federal regulations require us to regularly review and classify our investments based on credit risk in determining credit quality of investment portfolios as well as for calculating risk based capital. A decline in the market value of a security due to interest rate fluctuations is not a basis for adverse classification. Instead, the classification is based on the likelihood of the timely and full collection of principal and interest.

In assessing the credit quality of securities in our investment portfolio, we conduct an internal risk analysis, which includes a review of third party research and analytics. If our research indicates that an issuer of a security does not have adequate capacity to meet its financial obligations for the life of the asset, the Company will review the security and consider it for classification.

A security may be classified as Substandard, Doubtful or Loss, similar to loan classifications described above.

Our determination as to the classification of our investments is subject to review by our regulators. We regularly review our investment portfolio to determine whether any investments require classification in accordance with applicable regulations. Our review of our investment portfolio at December 31, 2022 December 31, 2023 resulted in two private-label asset-backed securities being classified, as the issuer may not have an adequate capacity to meet its financial commitments over the projected life of the investment or the risk of default by the obligor was possible, resulting in an expectation that the Bank would not receive the full and timely repayment of principal and interest as expected. These two securities had an amortized cost of \$0 and an aggregate fair value of \$96,000 \$31,000 at December 31, 2022 December 31, 2023. Five

The Company assessed whether it intended to or would be more likely than not required to sell its available-for-sale securities were evaluated in an unrealized loss position before the recovery of its amortized cost basis and concluded that no securities met this criteria. Furthermore, we considered whether the decline in fair value related to credit factors and concluded that no allowance for other-than-temporary impairment credit losses on available-for-sale securities was required as of December 31, 2022 December 31, 2023. We Additionally, we concluded that no other than temporary impairment charges needed to be recorded during the years year ended December 31, 2022 and 2021. During the years ended December 31, 2022 December 31, 2023 and 2021, 2022, we recaptured \$15,000 \$7,000 and \$59,000 \$15,000 respectively, of prior year other-than-temporary impairment charges. The recaptured amounts are reflected in the "recovery on previously impaired investment securities" line item in the consolidated statements of income.

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Bank Owned Life Insurance. The Bank owns several Bank Owned Life Insurance ("BOLI") policies totaling \$29.4 million and \$23.2 million at December 31, 2023 and \$22.9 million at December 31, 2022 and 2021, 2022, respectively. The purpose of these policies is to offset the costs of supplemental employee retirement benefit ("SERP") plans promised contractually obligated to members of management and non-employee directors. Refer to Note 11 in the notes to the consolidated financial statements beginning on page F-1 of this report for more information on the SERP plans. The lives of certain key Bank employees and non-employee directors are insured, and Lake Shore Savings Bank is the sole beneficiary and will receive any benefits upon the employee or non-employee's death. The policies were purchased from various life insurance companies. The design of the plan allows the cash value of the policy to be designated as an asset of the Bank. The asset's value will increase by the crediting rate, which is a rate set by each insurance company and is subject to change on a quarterly, semi-annual or annual basis. The growth of the value of the asset will be recorded in non-interest income on the consolidated statements of income. Because this is a life insurance product, current federal tax laws exempt the income from federal income taxes.

Bank owned life insurance is not secured by any government agency nor are the policies' asset values or death benefits secured specifically by any collateral. The Bank has worked closely with its advisor to select insurance companies and the bond ratings and financial condition of the underlying insurance companies are monitored on a quarterly basis. The failure of one of these insurance companies could result in a significant loss to the Bank. Other risks include the possibility that the favorable tax treatment of the income could change, that the crediting rate will not increase in a manner comparable to market interest rates, or that this type of plan will no longer be permitted by the Bank's regulators. This asset is considered

illiquid because, although the Bank may terminate the policies and receive the original premium plus all earnings at any time, such an action would require the payment of federal income taxes on all earnings since inception.

Sources of Funds

General. Deposits are our major source of funds for lending and other investment purposes. We may also borrow funds, primarily from the Federal Home Loan Bank of NY ("FHLBNY"), FHLBNY, to supplement the amount of funds available for lending and daily operations. In addition, we derive funds from loan and mortgage-backed securities principal repayments and prepayments and from interest and proceeds from the maturity and call of investment securities, along with cash flows from operations. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates, pricing strategies and economic conditions.

Deposits. We offer a variety of deposit accounts having a range of interest rates and terms. We currently offer regular savings deposits (consisting of Christmas Club and statement savings accounts), money market savings and checking accounts, interest-bearing and non-interest bearing checking accounts (i.e., demand deposits), health savings accounts, retirement accounts, time deposits and Interest on Lawyer Accounts ("IOLA"). In addition to accounts for individuals, we

also offer commercial savings, checking and money market accounts designed for the small to ~~medium sized~~ ~~medium-sized~~ businesses operating in our market area.

Deposit flows are influenced significantly by general and local economic conditions, changes in prevailing interest rates, pricing of deposits, and competition. Our deposits are obtained from communities surrounding our branch offices and we rely primarily on paying competitive rates, service, and long-standing relationships with customers to attract and retain these deposits. We may also rely on brokers to obtain deposits for liquidity purposes. We are a participant in the IntraFi Network Deposits program. This program offers our depositors enhanced FDIC insurance coverage. On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (the "EGRRCPA") was signed into law and as a result reciprocal deposits obtained via the IntraFi Network Deposits program are generally not considered brokered deposits. At ~~December 31, 2022~~ ~~December 31, 2023~~ and ~~2021~~, 2022, we had ~~\$8.1 million~~ ~~\$12.9 million~~ and ~~\$13.4 million~~ ~~\$8.1 million~~ of depositor funds placed in the IntraFi Network Deposits program. At ~~December 31, 2022~~ ~~December 31, 2023~~, we had ~~\$1.7 million~~ ~~\$16.0 million~~ of brokered ~~time~~ deposits while there were ~~no~~ ~~\$1.7 million of brokered time~~ deposits at ~~December 31, 2021~~ ~~December 31, 2022~~.

When we determine our deposit rates, we consider local competition, U.S. Treasury securities offerings, our liquidity needs, and the rates charged on other sources of funds. We generally review our deposit mix and

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pricing on a weekly basis. Our deposit pricing strategy has generally been to offer competitive rates to attract funds and to focus on the acquisition of lower cost core deposits as opportunities arise.

The following table presents our time deposit accounts categorized by interest rates which mature during each of the years set forth below and the amounts of such time deposits by interest rate at ~~December 31, 2022~~ ~~December 31, 2023~~ and ~~2021~~, 2022.

Interest Rate Range	Period to maturity at December 31, 2023				At December 31,	
	Less than One	More than One	More than Two			
	Year	Year to	Years to	More than Three	2023	2022
		Two Years	Three Years	Years		
(Dollars in thousands)						
0.49% and below	\$ 17,557	\$ 2,684	\$ 444	\$ 100	\$ 20,785	\$ 45,643
0.50% to 0.99%	12	1,091	3,426	2,168	6,697	18,330
1.00% to 1.99%	2,617	4,067	—	7	6,691	21,332
2.00% to 2.99%	6,677	13,286	4	—	19,967	52,109
3.00% to 3.99%	7,355	1,443	—	3,477	12,275	13,637
4.00% to 4.99%	91,640	295	—	1,803	93,738	1,907
5.00% to 5.99%	24,644	36,017	—	—	60,661	—
Total	\$ 150,502	\$ 58,883	\$ 3,874	\$ 7,555	\$ 220,814	\$ 152,958

Interest Rate Range	Period to maturity at December 31, 2022				At December 31,	
	Less than One	More than One	More than Two	More than Three		
	Year	to	Years to	Years	2022	2021
		Two Years	Three Years			
(Dollars in thousands)						
0.49% and below	\$ 32,828	\$ 10,958	\$ 1,673	\$ 184	\$ 45,643	\$ 69,113
0.50% to 0.99%	1,080	246	1,773	15,231	18,330	31,754
1.00% to 1.99%	10,406	3,947	6,972	7	21,332	31,144
2.00% to 2.99%	24,749	6,427	20,931	2	52,109	3,345
3.00% to 3.99%	7,573	3,042	30	2,992	13,637	2,007
4.00% to 4.99%	1,907	-	-	-	1,907	-
Total	\$ 78,543	\$ 24,620	\$ 31,379	\$ 18,416	\$ 152,958	\$ 137,363

At ~~December 31, 2022~~ ~~December 31, 2023~~ and ~~2021~~, 2022, time deposits with remaining terms to maturity of less than one year amounted to ~~\$78.5 million~~ ~~\$150.5 million~~ and ~~\$72.6 million~~ ~~\$78.5 million~~, respectively.

At **December 31, 2022** **December 31, 2023** and **2021, 2022**, we had **\$82.5 million** **\$75.7 million**, or 12.8% of total deposits, and **\$106.8 million** **\$82.5 million**, or 16.6% of total deposits, respectively, in uninsured deposits in excess of the FDIC insurance limit of \$250,000. At **December 31, 2022** **December 31, 2023**, we had **\$28.3 million** **\$38.4 million** in time deposits with balances of \$250,000 or more maturing as follows:

Maturity Period	Amount	
	(In thousands)	
Three months or less	\$ 610	5,014
Over three months through six months	262	10,716
Over six months to twelve months	9,519	7,793
Over twelve months	17,898	14,910
Total	\$ 28,289	38,433

Borrowings. The Company maintains borrowing arrangements in the form of lines of credit through the Federal Reserve Bank of NY as well as three other two depository institutions. The Company may also obtain term borrowings from the FHLBNY. Our borrowings typically consist of a mix of short-term and long-term FHLBNY advances. At **December 31, 2022** **December 31, 2023** we had **\$35.3 million of long-term debt from the FHLBNY**. In comparison, we had \$12.6 million of short-term borrowings and \$25.0 million of long-term debt from the FHLBNY. In comparison, we had \$22.0 million of long-term debt from the FHLBNY at **December 31, 2021** **December 31, 2022**.

Additional information regarding our deposits and borrowings are included in Notes 7 and 8 in the notes to our consolidated financial statements beginning on page F-1 of this report. Also, refer to "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information on sources of funds.

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Subsidiary Activities

Lake Shore Savings Bank is the only subsidiary of Lake Shore Bancorp. Lake Shore Savings Bank has no subsidiaries.

Employees and Human Capital Resources

Our core values of "Putting People First and *Helping our Customers, Energizing our Employees, Respecting our Stockholders and Serving our Communities*" begins with our Bank employees and their well-being. As a community bank, our employees are integral to the establishment of personal relationships with each of our customers, and as such are critical to the success of our Company.

As of **December 31, 2022** **December 31, 2023**, Lake Shore Savings Bank employed **113** **115** full-time employees and **7** **2** part-time employees. Lake Shore Savings employees are not represented by a collective bargaining unit. Management believes that it has good relations with its employees.

Management encourages and supports the growth and development of all its employees by providing internal and external educational opportunities. Employees have the opportunity to participate in instructor led classroom training, third party webinars, seminars, conferences, and local leadership training groups, in an effort to increase their knowledge. Whenever possible, the Company seeks to fill its open positions through internal promotions and transfers from within the organization.

As part of our efforts to attract and retain employees, as well as support their health and well-being, we provide, in addition to competitive salaries, a comprehensive benefit package that provides health, dental, life, disability and other ancillary insurance benefits, as well as a generous paid time off policy. In addition, through our 401K, profit sharing and ESOP programs the Company facilitates the future financial well-being of its employees. Nearly all of our employees are stockholders in the Company through their participation in our Employee Stock Ownership Plan. Employee participation helps align employee and stockholder interests by providing stock ownership on a tax-deferred basis at no investment cost

to our associates. These benefits, when combined with incentive compensation and bonus programs, serve as rewards for performance and as retention vehicles.

Supervision and Regulation

General

Lake Shore Savings Bank, a federally chartered savings bank, is subject to regulation, examination, and supervision by the OCC, while Lake Shore Bancorp, Inc. and Lake Shore, MHC, which are federally chartered savings and loan holding companies, are subject to regulation, examination, and supervision by the Federal Reserve Board. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market interest rates. Lake Shore Savings also is regulated, to a lesser extent, by the FDIC with respect to insurance of deposit accounts and the Federal Reserve Board, with respect to the payment of dividends and other matters. The regulation and supervision by these government agencies establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC's deposit insurance fund and depositors. Lake Shore Savings' relationship with its depositors and borrowers also

is regulated to a great extent by both federal and state laws, especially in matters concerning the ownership of deposit accounts and the form and content of Lake Shore Savings' mortgage documents.

Certain of the regulatory requirements that are applicable to Lake Shore Savings, Lake Shore Bancorp and Lake Shore, MHC are described below. This description of statutes, regulations and other documents is not intended to be a complete explanation of such statutes, regulations and other documents and their effect on Lake

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Shore Savings, Lake Shore Bancorp and Lake Shore, MHC and is qualified in its entirety by reference to the actual statutes, regulations and other documents.

Consent Order

Effective as of February 9, 2023, the Bank and the OCC entered into a Consent Order (the "Order"). The Order replaces the prior Agreement between the Bank and the OCC dated July 13, 2022 ("Written (the "Written Agreement"), which has been terminated in connection with the entry into the Order. The Order provides, among other things, that the Bank will take the following actions within specified time frames as set forth in the Order:

- create a compliance committee to monitor and oversee the Bank's compliance with the Order and submit monthly reports to the Board of Directors of the Bank and the OCC;
 - develop, adopt, implement, and thereafter adhere to a program for corporate governance and Board oversight of the Bank's operation and s
 - establish, and review at least annually, the objectives by which senior executive officers', as well as the Chief Technology Officer's, the Infor Officer's, and the Bank Secrecy Act ("BSA") Officer's, effectiveness will be measured and prepare an annual written performance appraisal senior executive officer evaluating the performance of such objectives;
 - ensure that the Bank has competent management in place, review the capabilities, experience, qualifications and performance of the Bank's including, but not limited to, the Chief Executive Officer, Chief Operating Officer, Chief Technology Officer, Information Security Officer and BSA Board will determine whether management changes should be made;
 - if an officer will continue in his or her position, but the Board determines the officer's depth of skills needs improvement, it will develop and i program to improve the officer's supervision and management of the Bank;
 - submit to the OCC for review and prior written determination of no supervisory objection an acceptable written strategic plan for the Bank three-year period;
 - submit to the OCC for review an acceptable, comprehensive, written internal audit program that adequately assesses controls and oper Board and management to understand the sufficiency of the Bank's internal controls program;
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- develop, adopt and implement a written program to effectively assess and manage the Bank's information technology ("IT") activities, commensurate with the level of risk and complexity of the Bank's IT activities, subject to review and prior written determination of no supervisory objection by the OCC;
 - develop, adopt and implement a written information security program that includes administrative, technical and physical safeguards to ensu confidentiality of customer information, subject to review and prior written determination of no supervisory objection by the OCC;
 - adopt and implement the written automated clearing house risk management program previously given no supervisory objection by the (with the Written Agreement;
 - analyze the current BSA/AML risk profile and strategic direction of the Bank to determine the skills, experience, and expertise required Officer and develop a comprehensive job description detailing all the requirements and responsibilities of the BSA Officer role with such app Officer subject to OCC non-objection;

Agreement with the Federal Reserve Bank of Philadelphia

On June 28, 2023 Lake Shore, MHC and Lake Shore Bancorp, Inc. the parent savings and loan holding companies of Lake Shore Savings Bank, entered into a written agreement (the "Agreement") with the Federal Reserve Bank of Philadelphia (the "Reserve Bank"), the companies' regulator. The Agreement provides, among other things, that the companies take appropriate steps to fully utilize the companies' financial and managerial resources to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with the Consent Order and not, directly or indirectly, declare or pay dividends, increase or guarantee any debt without prior approval. We expect that our non-interest expenses will continue at their increased levels as a result of the Agreement and the Order, which may adversely affect our financial performance.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners' Loan Act, as amended, and the regulations of the OCC. Under these laws and regulations, Lake Shore Savings may originate mortgage loans secured by residential and commercial real estate,

commercial business loans and consumer loans, and it may invest in certain types of debt securities and certain other assets. Certain types of lending, such as commercial real estate, commercial business and consumer loans, are subject to an aggregate limit calculated as a specified percentage of Lake Shore Savings' capital or assets. Specifically, Lake Shore Savings may invest in non-residential real estate loans which may not in the aggregate exceed 400% of capital, commercial business loans up to 20% of assets in the aggregate and consumer loans up to 35% of assets in the aggregate. Lake Shore Savings also may establish subsidiaries that may engage in activities not otherwise permissible for Lake Shore Savings, including real estate investment and securities and insurance brokerage.

Examinations and Assessments. Lake Shore Savings Bank is primarily supervised by the OCC, and as such is required to file reports with and is subject to periodic examination by the OCC. Lake Shore Savings Bank is also required to pay assessments to the OCC to fund the agency's operations.

Capital Requirements. Federal regulations require a federal savings bank to meet certain minimum capital standards. The minimum capital standards consist of a common equity Tier 1 ("CET1") capital ratio of 4.5% of risk-weighted assets, a uniform leverage ratio of 4%, a Tier 1 capital to risk-weighted assets ratio of 6% of risk-weighted assets and a total capital ratio of at least 8% of risk-weighted assets. In order to be considered well-capitalized, the Bank must have a CET1 ratio of 6.5%, a Tier 1 ratio of 8%, a total risk-based capital ratio of 10% and a leverage ratio of 5%. The Bank is also required to meet an Individual Minimum Capital Requirement as described above. The regulatory standards require unrealized gains and losses on certain "available for sale" securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. Lake Shore Savings Bank has exercised this one-time opt-out and therefore excluded unrealized gains and losses on certain "available-for-sale" securities holdings for purposes of calculating regulatory capital when applying the general rule. Additional restraints are also imposed on the inclusion in regulatory capital of mortgage-servicing assets, deferred tax assets and minority interests.

Capital definitions include:

- **Common equity Tier 1 capital** is generally defined as common stockholders' equity, including retained earnings but excluding accumulated other comprehensive income.
- **Tier 1 capital** is generally defined as Common Equity Tier 1 capital and Additional Tier 1 capital.
- **Additional Tier 1 capital** generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries.
- **Total capital** includes Tier 1 capital and Tier 2 capital.
- **Tier 2 capital** is comprised of capital instruments and related surplus meeting specific requirements, and may include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have not exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Lake Shore Savings has exercised this one time opt-out election and does not include AOCI in its regulatory capital when applying the general rule.

Additionally, a savings bank that retains credit risk in connection with an asset sale may be required to maintain additional regulatory capital because of the recourse back to the savings bank. In assessing an institution's capital adequacy, the federal regulators take into consideration not only these numeric factors but also qualitative factors as well and has the authority to establish higher capital requirements for individual associations where necessary.

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In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor assigned by federal regulations based on the risks believed inherent in the type of asset. The capital requirements assign a higher risk weight to asset categories believed to present a great risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% and 600% is assigned to permissible equity interests, depending on certain specified factors.

The regulations limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

Notwithstanding the foregoing, pursuant to the EGRRCPA, the OCC finalized a rule effective January 2020 that established a minimum community bank leverage ratio (tier 1 capital to average consolidated assets) of 9% for institutions under \$10 billion in assets. An institution may elect to utilize the community bank leverage ratio in lieu of the general applicable risk-based capital requirements under Basel III. Such institutions that meet the community bank leverage ratio and certain other qualifying criteria will automatically be deemed to be well-capitalized.

Effective January 1, 2020, the Bank elected to opt in and utilize the community bank leverage ratio framework on its quarterly call report. An institution that temporarily ceases to meet any qualifying criteria is provided with a two-quarter grace period to again achieve compliance. Failure to meet the qualifying criteria within the grace period or maintain a leverage ratio of 9% in 2022 requires the institution to comply with the generally applicable capital requirements.

At December 31, 2022 December 31, 2023, Lake Shore Savings' capital exceeded the minimum requirement of the community bank leverage ratio with a ratio of 9% 12.68% and was considered to be well-capitalized.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OCC is required and authorized to take supervisory actions against undercapitalized federal savings banks. For this purpose, a savings bank is placed in one of the following categories based on the savings bank's capital:

- well-capitalized (at least 5% leverage capital, 6.5% common equity Tier 1 risk-based capital, 8% Tier 1 risk-based capital and 10% total risk-based capital or if applicable, a community bank leverage ratio of 9.0% for 2022);
- adequately capitalized (at least 4% leverage capital, 4.5% common equity Tier 1 risk-based capital, 6% Tier 1 risk-based capital and 8% capital);
- undercapitalized (less than 4% leverage capital, 4.5% common equity Tier 1 risk-based capital, 6% Tier 1 risk-based capital or 8% total risk-based capital);
- significantly undercapitalized (less than 3% leverage capital, 3% common equity Tier 1 risk-based capital, 4% Tier 1 risk-based capital and 6% total risk-based capital); and
- critically undercapitalized (less than 2% tangible capital).

Generally, the OCC is required to appoint a receiver or conservator for a savings bank that is "critically undercapitalized" within specific time frames. "Undercapitalized" institutions are subject to certain restrictions, such as on capital distributions and growth. The regulations also provide that a capital restoration plan must be filed with the OCC within 45 days of the date a savings bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Any holding company for the savings bank

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required to submit a capital restoration plan must guarantee the lesser of: an amount equal to 5% of the savings bank's assets at the time it was notified or deemed to be undercapitalized by the OCC, or the amount necessary to restore the savings bank to adequately capitalized status. This guarantee remains in place until the OCC notifies the savings bank that it has maintained adequately capitalized status for each of four consecutive calendar quarters. The OCC has the authority to require payment and collect payment under the

guarantee. The failure of a holding company to provide the required guarantee will result in certain operating restrictions on the savings bank, such as restrictions on the ability to declare and pay dividends, pay executive compensation and management fees, and increase assets or expand operations. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized savings banks, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2022 December 31, 2023, Lake Shore Savings met the criteria for being considered "well-capitalized."

Capital Distributions. Federal regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the capital account.

Among other requirements, every federal savings bank in the mutual holding company structure must file an application with the OCC prior to paying a dividend or making a capital distribution.

Every federal savings bank that is a subsidiary of a holding company must file a notice with the Federal Reserve Board, at least 30 days before the board of directors declares a dividend or approves a capital distribution.

The OCC and the Federal Reserve Board may disapprove an application or notice if:

- the savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution if, after making such distribution, the institution would be undercapitalized.

The Company's Board of Directors has suspended quarterly dividend payments to the Company's stockholders. The Board of Directors made this decision in order to focus the capital resources of the Company and the Bank on addressing the operational, compliance and governance items described in the Consent

Order.

Loans to One Borrower. Generally, a federal savings bank may not make a loan or extend credit to a single borrower in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of **December 31, 2022** **December 31, 2023**, Lake Shore Savings Bank was in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings bank, Lake Shore Savings is subject to a qualified thrift lender, or “QTL,” requirement by meeting one of two tests: The Home Owners’ Loan Act (“HOLA”) QTL test or the Internal Revenue Service (“IRS”) Domestic Building and Loan Association (“DBLA”) test. The federal savings bank may use either test to qualify and may switch from one test to the other.

Under the HOLA QTL test, Lake Shore Savings must maintain at least 65% of its “portfolio assets” in “qualified thrift investments” in at least nine months of the most recent 12-month period. “Portfolio assets” generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings bank’s business.

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“Qualified thrift investments” includes various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. “Qualified thrift investments” also include 100% of an institution’s credit card loans, education loans and small business loans.

Under the IRS DBLA test, the Bank must meet the business operations test and the 60% of assets test. The business operations test requires that the federal savings bank’s business consists primarily of acquiring the savings of the public (75% of its deposits and other obligations must be held by the general public) and investing in loans (more than 75% of its gross income consists of interest on loans and government obligations and various other specified types of operating income that federal savings bank’s ordinarily earn). For the 60% of assets test, the Bank must maintain at least 60% of its total in “qualified investments” as of the close of the taxable year or, at the option of the federal savings bank, may be computed on the basis of the average assets outstanding during the taxable year.

A savings bank that fails the QTL test must either convert to a commercial bank charter or operate under specified restrictions. The Dodd-Frank Act made noncompliance with the QTL test potentially subject to agency enforcement action for violation of law. At **December 31, 2022** **December 31, 2023**, Lake Shore Savings Bank opted to utilize the HOLA QTL test and satisfied the requirements of this test for the entire 12-month period.

Liquidity. A federal savings institution is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation. We seek to maintain a ratio of liquid assets not subject to pledge as a percentage of **deposits and borrowings** **total liabilities** of **15%** **12%** or greater.

Refer to Part II, Item 7 “Management Discussion and Analysis – Liquidity and Capital Resources” elsewhere in this report for additional details on liquidity.

Community Reinvestment Act and Fair Lending Laws. All savings banks have a responsibility under the Community Reinvestment Act and related federal regulations to help meet the credit needs of their communities, including low-and moderate-income neighborhoods. In connection with its examination of a federal savings bank, the OCC is required to assess the savings bank’s record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank’s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications, such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice. Lake Shore Savings Bank received an “outstanding” Community Reinvestment Act rating in its most recent federal examination.

On October 24, 2023, the OCC and the other federal banking agencies issued a final rule to strengthen and modernize the CRA regulations. Under the final rule, banks with assets of at least \$600 million as of December 31 in both of the prior two calendar years and less than \$2 billion as of December 31 in either of the prior two calendar years will be an “intermediate bank.” The agencies will evaluate intermediate banks under the Retail Lending Test and either the current community development test, referred to in the final rule as the Intermediate Bank Community Development Test, or, at the Bank’s option, the Community Development Financing Test. The applicability date for the majority of the provisions in the CRA regulations is January 1, 2026, and additional requirements will be applicable on January 1, 2027.

Transactions with Related Parties. A federal savings bank’s authority to engage in transactions with its “affiliates” is limited by OCC regulations and by Sections 23A and 23B of the Federal Reserve Act. The term “affiliate” for these purposes generally means any company that controls, is controlled by, or is under common control with an insured depository institution such as Lake Shore Savings Bank. Lake Shore Bancorp, Inc. and Lake Shore, MHC are affiliates of Lake Shore Savings Bank. In general, transactions with affiliates must be on terms that are as favorable to the savings bank as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the savings bank’s capital. Collateral in specified amounts

must usually be provided by affiliates in order to receive loans from the savings bank. In addition, OCC regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices and may not involve low-quality assets. The OCC requires savings banks to maintain detailed records of all transactions with affiliates.

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Lake Shore Savings' authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Lake Shore Savings Bank's capital. In addition, Lake Shore Savings Bank's board of directors must approve extensions of credit in excess of certain limits. Extensions of credit to executive officers are subject to additional restrictions based on the category of loan.

At **December 31, 2022** **December 31, 2023**, Lake Shore Savings is in compliance with Regulation O.

Cybersecurity. In addition to the provisions in the Gramm-Leach-Bliley Act relating to data security, the Company and its subsidiaries are subject to many federal and state laws, regulations and regulatory interpretations which impose standards and requirements related to cybersecurity. For example, federal regulatory statements regarding cybersecurity indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. Additionally, the statements indicate that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. Financial institutions that fail to observe this regulatory guidance on cybersecurity may be subject to various regulatory sanctions, including financial penalties.

In November 2021, the federal bank regulatory agencies issued a final rule requiring banking organizations to notify their primary federal regulator as soon as possible and no later than 36 hours of determining that a "computer-security incident" that rises to the level of a "notification incident," as those terms are defined in the final rule, has occurred. A notification incident is a "computer-security incident" that has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the banking organization's ability to deliver services to a material portion of its customer base, jeopardize the viability of key operations of the banking organization, or impact the stability of the financial sector. The final rule also requires bank service providers to notify any affected bank to or on behalf of which the service provider provides services "as soon as possible" after determining that it has experienced an incident that materially disrupts or degrades, or is reasonably likely to materially disrupt or degrade, covered services provided to such bank for four or more hours. The rule was effective April 1, 2022, with compliance required by May 1, 2022.

Anti-Money Laundering and OFAC. Under federal law, financial institutions must maintain anti-money laundering programs that include established internal policies, procedures, and controls. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions. Law enforcement authorities have been granted increased access to financial information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations. The U.S. Department of the Treasury's Office of Foreign Assets Control, or "OFAC," is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations, and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze or block such account or transaction, file a suspicious

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activity report and notify the appropriate authorities. The U.S. Treasury Department's Financial Crises Enforcement Network ("FinCEN") rules include customer due diligence requirements for banks, including a requirement to identify and verify the identity of beneficial owners of customers that are legal entities, subject to certain exclusions and exemptions.

The Anti-Money Laundering Act of 2020 ("AMLA"), which amends the BSA, was enacted in January 2021. The AMLA is intended to comprehensively reform and modernize U.S. bank secrecy and anti-money laundering laws. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the U.S. Department of the Treasury to promulgate priorities for anti-money laundering and countering the financing of terrorism policy; requires the development of standards for testing technology and internal processes for BSA compliance; expands enforcement and investigation-

related authority, including increasing available sanctions for certain BSA violations; and expands BSA whistleblower incentives and protections. In June 2021, FinCEN issued the priorities for anti-money laundering and countering the financing of terrorism policy required under AMLA. The national priorities include: (i) corruption, (ii) cybercrime, (iii) terrorist financing, (iv) fraud, (v) transnational crime, (vi) drug trafficking, (vii) human trafficking and (viii) proliferation financing.

Enforcement. The OCC has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all "institution-affiliated parties," including stockholders, and attorneys,

appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1.0 million per day. The FDIC also has the authority to terminate deposit insurance or to recommend to the OCC that enforcement action be taken with respect to a particular savings institution. If the OCC does not take action, the FDIC has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Insurance of Deposit Accounts. Lake Shore Savings is a member of the Deposit Insurance Fund, which is administered by the FDIC. Deposit accounts in the Bank are insured by the FDIC. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks and savings institutions to \$250,000 per depositor.

The FDIC imposes an assessment for deposit insurance on all depository institutions. The FDIC's assessment system is based on each institution's total assets less tangible capital and, for institutions of Lake Shore Savings' asset size, ranges from 1.5 3.5 basis points to 30 32 basis points through December 31, 2022, points. Assessment rates are risk based and are based on a formula which uses financial measures and supervisory ratings derived from a statistical model estimating the probability of failure over three years. The FDIC may also issue special assessments. In 2023, the FDIC issued a special assessment for banks with total consolidated assets of \$5 billion or more in order to recover losses sustained by the Deposit Insurance Fund as a result of the March 2023 failures of Silicon Valley Bank and Signature Bank.

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The FDIC has authority to increase insurance assessments and adopted a final rule in October 2022 to increase initial base deposit insurance assessment rates by 2 basis points beginning in the first quarterly assessment period of 2023. As a result, effective January 1, 2023, assessment rates for institutions of the Bank's size will range from 3.5 to 32 basis points.

assessments. As a result of the Consent Order described above, the Bank expects its deposit insurance assessments to increase will remain at an increased level in the near future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

Prohibitions Against Tying Arrangements. Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. Lake Shore Savings is a member of the Federal Home Loan Bank System, which consists of eleven regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of New York, Lake Shore Savings is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of December 31, 2022 December 31, 2023, Lake Shore Savings was in compliance with this requirement.

Other Regulations

Interest and other charges collected or contracted for by Lake Shore Savings are subject to state usury laws and federal laws concerning interest rates. Lake Shore Savings' operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Real Estate Settlement Procedures Act, requiring that borrowers for one- to four-family residential real estate loans receive various disclosures: good faith estimates of settlement costs, lender servicing and escrow account practices;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine if a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Lake Shore Savings also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;

Note 16 – Commitments to Extend Credit

The Company has commitments to extend credit with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. There were no loss reserves was a \$487,000 allowance for credit losses associated with these commitments at December 31, 2022 December 31, 2023 and 2021. no loss reserve associated with these commitments at December 31, 2022. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following commitments to extend credit were outstanding as of the dates specified:

	Contract Amount	
	December 31, 2022	December 31, 2021
	(Dollars in thousands)	
Commitments to grant loans	\$ 26,334	\$ 61,234
Unfunded commitments under lines of credit	74,848	73,387

	Contract Amount	
	December 31, 2023	December 31, 2022
	(Dollars in thousands)	
Commitments to grant loans	\$ 21,045	\$ 26,334
Unfunded commitments to fund loans and lines of credit	75,721	74,848
Commercial and Standby letters of credit	1,212	-

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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Note 17 – Parent Company Only Financial Information

The following condensed financial statements summarize the financial position and results of operations and cash flows of the parent savings and loan holding company, Lake Shore Bancorp, Inc., as of December 31, 2022 December 31, 2023 and 2021 2022 and for the years ended December 31, 2022 December 31, 2023 and 2021, 2022.

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Statements of Financial Condition

December 31,

	2022	2021
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 2,084	\$ 1,085
Investment in subsidiary	77,050	85,223
ESOP loan receivable	1,359	1,420
Other assets	721	274
Total assets	\$ 81,214	\$ 88,002
Liabilities and Stockholders' Equity		
Other liabilities	30	26
Total stockholders' equity	81,184	87,976
Total liabilities and stockholders' equity	\$ 81,214	\$ 88,002

	December 31,	
	2023	2022
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 2,272	\$ 2,084
Investment in subsidiary	82,487	77,050
ESOP loan receivable	1,294	1,359
Other assets	337	721
Total assets	\$ 86,390	\$ 81,214
Liabilities and Stockholders' Equity		
Other liabilities	117	30
Total stockholders' equity	86,273	81,184
Total liabilities and stockholders' equity	\$ 86,390	\$ 81,214

	For the Years Ended	
	December 31,	
	2023	2022
	(Dollars in thousands)	
Interest Income	\$ 183	\$ 145
Dividend distributed by bank subsidiary	—	3,000
Other	7	5
Total Income	190	3,150
Non-interest Expenses	577	494
Income before income taxes and equity in undistributed net income of subsidiary	(387)	2,656
Income tax benefit	(81)	(99)
Income before undistributed net income of subsidiary	(306)	2,755
Equity in undistributed net income of subsidiary	5,126	2,953
Net Income	\$ 4,820	\$ 5,708

	For the Years Ended	
	December 31,	

Statements of Income

For the Years Ended
December 31,

	2022	2021
	(Dollars in thousands)	
Interest Income	\$ 145	\$ 112
Dividend distributed by bank subsidiary	3,000	3,000
Other	5	3
Total Income	3,150	3,115
Non-interest Expenses	494	404
Income before income taxes and equity in undistributed net income of subsidiary	2,656	2,711
Income tax benefit	(99)	(83)
Income before undistributed net income of subsidiary	2,755	2,794
Equity in undistributed net income of subsidiary	2,953	3,393
Net Income	\$ 5,708	\$ 6,187

Statements of Comprehensive Income (Loss)

	For the Years Ended	
	December 31,	
	2023	2022
	(Dollars in thousands)	
Net Income	\$ 4,820	\$ 5,708
Other Comprehensive Income (Loss), net of tax (expense) benefit:		
Unrealized holding gains (losses) on securities available for sale of subsidiary, net of tax (expense) benefit 2023 (\$241); 2022 \$3,004	905	(11,298)
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income of subsidiary, net of tax expense 2023 \$2; 2022 \$3	(5)	(12)
Net loss on sale of securities included in net income, net of tax benefit of \$12	47	—
Total Other Comprehensive Income (Loss)	947	(11,310)
Total Comprehensive Income (Loss)	\$ 5,767	\$ (5,602)

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Statements of Cash Flows

	For the Years Ended	
	December 31,	
	2023	2022
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 4,820	\$ 5,708
Adjustments to reconcile net income to net cash provided by operating activities:		
ESOP shares committed to be released	86	110
Stock based compensation expense	17	225
Decrease (increase) in other assets	297	(631)
Increase in other liabilities	87	4
Equity in undistributed earnings of subsidiary	(5,126)	(2,953)
Net Cash Provided by Operating Activities	181	2,463
Cash Flows from Investing Activities:		
Payments received on ESOP loan	65	61
Net Cash Provided by Investing Activities	65	61
Cash Flows from Financing Activities:		

Purchase of treasury stock	(58)	(85)
Cash dividends paid	—	(1,440)
Net Cash Used in Financing Activities	(58)	(1,525)
Net Decrease in Cash and Cash Equivalents	188	999
Cash and Cash Equivalents - Beginning	2,084	1,085
Cash and Cash Equivalents - Ending	\$ 2,272	\$ 2,084

Statements of Comprehensive (Loss) Income

	For the Years Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Net Income	\$ 5,708	\$ 6,187
Other Comprehensive Loss, net of tax benefit:		
Unrealized holding loss on securities available for sale of subsidiary, net of tax benefit 2022 \$3,004; 2021 \$300	(11,298)	(1,122)
Reclassification adjustments related to:		
Recovery on previously impaired investment securities included in net income of subsidiary, net of tax expense 2022 \$3; 2021 \$11	(12)	(48)
Total Other Comprehensive Loss	(11,310)	(1,170)
Total Comprehensive (Loss) Income	\$ (5,602)	\$ 5,017

Statements of Cash Flows

	For the Years Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	\$ 5,708	\$ 6,187
Adjustments to reconcile net income to net cash provided by operating activities:		
ESOP shares committed to be released	110	117
Stock based compensation expense	225	257
Increase in other assets	(631)	(218)
Increase in other liabilities	4	3
Equity in undistributed earnings of subsidiary	(2,953)	(3,393)
Net Cash Provided by Operating Activities	2,463	2,953
Cash Flows from Investing Activities:		
Payments received on ESOP loan	61	57
Net Cash Provided by Investing Activities	61	57
Cash Flows from Financing Activities:		
Purchase of treasury stock	(85)	(2,255)
Cash dividends paid	(1,440)	(1,084)
Net Cash Used in Financing Activities	(1,525)	(3,339)
Net Increase (Decrease) in Cash and Cash Equivalents	999	(329)
Cash and Cash Equivalents - Beginning	1,085	1,414
Cash and Cash Equivalents - Ending	\$ 2,084	\$ 1,085

Note 18 – Treasury Stock

During the year ended December 31, 2023, the Company did not repurchase any shares of common stock under the existing stock repurchase program. As of December 31, 2023, there were 30,626 shares remaining to be repurchased under the existing stock repurchase program. During the year ended December 31, 2023, the Company transferred 8,282 shares of common stock out of treasury stock reserved for the 2012 Equity Incentive Plan, at an average cost of \$9.39 per

share to fund awards that had been granted under the plan. During the year ended December 31, 2023, there were 22,296 shares transferred back into treasury stock reserved for the 2012 Equity Incentive Plan at an average cost of \$9.39 per share due to forfeitures. The Company repurchased 4,923 shares upon the vesting of shares under the 2012 Equity Incentive Plan for the purpose of remitting payroll taxes on behalf of awardees who were employees, at an average cost of \$11.60 per share, during the year ended December 31, 2023.

During the year ended December 31, 2022, the Company repurchased 5,701 shares of common stock at an average cost of \$14.91 per share. These shares were repurchased pursuant to the Company's publicly announced common stock repurchase program. As of December 31, 2022, there were 30,626 shares remaining to be repurchased under the existing stock repurchase program. During the year ended December 31, 2022, the Company transferred 29,132 shares of common stock out of treasury stock reserved for the 2012 Equity Incentive Plan, at an average cost of \$9.39 per share to fund awards that had been granted under the plan. During the year ended December 31, 2022, there were 10,616 shares transferred back into treasury stock reserved for the 2012 Equity Incentive Plan at an average cost of \$9.39 per share due to forfeitures.

During the year ended December 31, 2021, the Company repurchased 150,542 shares of common stock at an average cost of \$14.98 per share. The Company repurchased 149,928 of these shares at an average cost of \$14.98 per share pursuant to the Company's publicly announced common stock repurchase programs. As of December 31, 2021, there were 36,327 shares remaining to be repurchased under the existing stock repurchase program. The remaining 614 shares were purchased from the trustee of the Company's unvested RRP and EIP stock holdings, when awardees sold vested shares, at an average cost of \$14.97 per share. During the year ended December 31, 2021, the Company transferred 20,958 shares of common stock out of treasury stock reserved for the 2012 Equity Incentive Plan, at an average cost of \$9.39 per share to fund awards that had been granted under the plan. During the year ended December 31, 2022, there were 1,792 shares transferred back into treasury stock reserved for the 2012 Equity Incentive Plan at an average cost of \$9.39 per share due to forfeitures. F - 43

Note 19 – Other Comprehensive Loss

Income (Loss)

In addition to presenting the consolidated statements of comprehensive income (loss) herein, the following table shows the tax effects allocated to the Company's single component of other comprehensive loss income (loss) for the periods presented:

	For the Years Ended December 31, 2022			For The Years Ended December 31, 2021		
	Pre-Tax Amount	Tax Benefit	Net of Tax Amount	Pre-Tax Amount	Tax Benefit	Net of Tax Amount
	(Dollars in thousands)					
Net unrealized losses on securities available for sale:						
Net unrealized losses arising during the period	\$ (14,302)	\$ 3,004	\$ (11,298)	\$ (1,422)	\$ 300	\$ (1,122)
Less: reclassification adjustment related to:						
Recovery on previously impaired investment securities included in net income	(15)	3	(12)	(59)	11	(48)
Total Other Comprehensive Loss	\$ (14,317)	\$ 3,007	\$ (11,310)	\$ (1,481)	\$ 311	\$ (1,170)

	For the Years Ended December 31, 2023			For The Years Ended December 31, 2022		
	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax Benefit	Net of Tax Amount
	(Dollars in thousands)					
Net unrealized gains (losses) on securities available for sale:						
Net unrealized gains (losses) arising during the period	\$ 1,146	\$ (241)	\$ 905	\$ (14,302)	\$ 3,004	\$ (11,298)
Less: reclassification adjustment related to:						
Loss on sale of securities included in net income	59	(12)	47	—	—	—
Recovery on previously impaired investment securities included in net income	(7)	2	(5)	(15)	3	(12)
Total Other Comprehensive Income (Loss)	\$ 1,198	\$ (251)	\$ 947	\$ (14,317)	\$ 3,007	\$ (11,310)

The following table presents the amounts reclassified out of the single component of the Company's accumulated other comprehensive **income(loss) loss** for the indicated periods:

Amounts Reclassified from Accumulated			
Details about Accumulated Other	Other Comprehensive (Loss) Income		Affected Line Item
Comprehensive (Loss) Income	for the years ended December 31,		on the Consolidated
Components	2022	2021	Statements of Income
(Dollars in thousands)			
Net unrealized losses on securities available for sale:			
Recovery on previously impaired investment securities	\$ (15)	\$ (59)	Recovery on previously impaired investment securities
Provision for income tax expense	3	11	Income Tax Expense
Total reclassification for the period	\$ (12)	\$ (48)	Net Income

Amounts Reclassified from Accumulated			
Details about Accumulated Other	Other Comprehensive Loss		Affected Line Item
Comprehensive Loss	for the years ended December 31,		on the Consolidated
Components	2023	2022	Statements of Income
(Dollars in thousands)			
Net unrealized gains (losses) on securities available for sale:			
Loss on sale of securities included in net income	\$ 59	\$ —	Loss on sale of securities available for sale
Recovery on previously impaired investment securities	(7)	(15)	Recovery on previously impaired investment securities
Provision for income tax (benefit) expense	(10)	3	Income tax expense
Total reclassification for the period	\$ 42	\$ (12)	Net Income

Note 20 – Revenue Recognition

The Company's non-interest revenue streams primarily result from services it provides to its deposit customers. When a customer makes a deposit, the Company records a liability because the Company has an obligation to deliver cash to its customer on demand. A contract between the Company and a deposit account customer is typically documented in writing and is often terminable at will by the customer alone or by both the customer and the Company without penalty. The term of a deposit contract between a customer and the Company will likely be day-to-day or minute-to-minute, and the termination clause is likely similar to a renewal right where each day or minute represents the renewal of the contract. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity.

Debit Card Fees

Debit card fees are primarily comprised of interchange fees earned whenever the Company's debit cards are used to purchase goods or services from a merchant via a card payment network, such as MasterCard. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value. The Company's performance obligation for

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interchange income are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically immediately.

Service Charges on Deposit Accounts

Service charges and fees on deposit accounts consist of transaction-based fees, account maintenance fees, and overdraft service fees for various retail and business deposit customers. Transaction-based fees, such as stop payment charges, are recognized at the time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn directly from the customer's account balance.

Fees and Other Service Charges

Fees and other service charges are primarily comprised of ATM fees, merchant services income and other service charges. ATM fees are comprised of fees earned whenever a Company's ATM or debit card is used at a non-Company ATM or a non-Company cardholder uses a Company ATM. ATM fees represent a fixed fee for the convenience to cardholders for accessibility of funds. Merchant services income mainly represents fees charged to merchants serviced by a third party vendor under contract with the Company for debit or credit card processing, and represents a percentage of the underlying transaction value. Other service charges include revenue from services provided to our retail or business customers, which may include fees for wire transfer

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processing, bill pay services, cashier's checks and other services. The Company's performance obligation for fees and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically immediately or in the following month.

Other

Other non-interest income consists of safe deposit rental fees. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Gain/Losses on Sale of OREO Foreclosed Real Estate

The Company records a gain or loss from the sale of other foreclosed real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO foreclosed real estate asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company may need to adjust the transaction price and related gain (loss) on sale if a significant financing component is present. Gains (losses) on the sale of OREO foreclosed real estate are generally recorded in non-interest expense on the consolidated statements of income as an offset to OREO foreclosed real estate expenses. There were no sales of OREO foreclosed real estate during the years ended December 31, 2022 December 31, 2023 and 2021, 2022, where the Company financed the sale of the property.

Contract Balances

The Company's non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2022 December 31, 2023 and 2021, 2022, the Company did not have any significant contract balances.

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The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2022 December 31, 2023 and 2021: 2022:

	For the years ended December 31,		For the years ended	
	2022	2021	December 31,	
	(Dollars in thousands)		2023	2022
			(Dollars in thousands)	
Non-Interest Income				
In-Scope of Topic 606:				
Debit card fees	\$ 846	\$ 873	\$ 846	\$ 846
Service charges on deposit accounts	727	608	709	727
Fees and other service charges	126	147	127	126
Other	37	35	34	37
Non-interest Income (in-scope of Topic 606)	1,736	1,663	1,716	1,736

Non-interest Income (out of scope of Topic 606)	968	1,525	919	968
Total Non-Interest Income	\$ 2,704	\$ 3,188	\$ 2,635	\$ 2,704

Note 21 – Subsequent Events

On February 9, 2023, the Bank entered into a Consent Order (the “Order”) with the OCC, the Bank's primary regulator. The Order principally concerns the Bank's information technology (“IT”) activities, information security program, and BSA/AML compliance. On February 15, 2023, Lake Shore Bancorp, Inc. announced that the Board of Directors has suspended the quarterly dividend payment to Company stockholders in order to focus

F - 50 46

the capital resources of the Company and the Bank on addressing the operational, compliance and governance deficiencies described in the Order.

F - 51

Exhibit 21.1

Subsidiaries of Lake Shore Bancorp, Inc.

Company	Percent Owned
Lake Shore Savings Bank	100.0% by Lake Shore Bancorp, Inc.

Company	Percent Owned
Lake Shore Savings Bank	100.0% by Lake Shore Bancorp, Inc.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-141829 and No. 333-185624) of Lake Shore Bancorp, Inc. and subsidiary of our report dated March 31, 2023March 22, 2024, relating to the consolidated financial statements, which appears in this annual report on Form 10-K for the year ended December 31, 2022December 31, 2023.

/s/ Baker Tilly US, LLP
Pittsburgh, Pennsylvania
March 31, 2023
22, 2024

Exhibit 31.1

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
I, Jeffrey M. Werdein, Kim C. Liddell, certify that:

1. I have reviewed this annual report on Form 10-K of Lake Shore Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

b.

1. I have reviewed this annual report on Form 10-K of Lake Shore Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 31, 2023

/s/ Jeffrey M. Werdein

Jeffrey M. Werdein

Interim Principal Executive Officer

March 22, 2024

/s/ Kim C. Liddell

Kim C. Liddell

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION
PURSUANT TO 17 CFR 240.13a-14
PROMULGATED UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rachel A. Foley, Taylor M. Gilden, certify that:

1. I have reviewed this annual report on Form 10-K of Lake Shore Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

- c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and
 - b.
 - 1. I have reviewed this annual report on Form 10-K of Lake Shore Bancorp, Inc.;
 - 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 - 3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 - 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 31, 2023

/s/ Rachel A. Foley
Rachel A. Foley
Chief Financial Officer

March 22, 2024

/s/ Taylor M. Gilden
Taylor M. Gilden
Chief Financial Officer

Exhibit 32.1

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-
OXLEY ACT OF 2002

In connection with the Annual Report of Lake Shore Bancorp, Inc. (the "Company") on Form 10-K for the year ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey M. Werdein, Interim Principal Kim C. Liddell, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

March 31, 2023

/s/ Jeffrey M. Werdein
Jeffrey M. Werdein
Interim Principal Executive Officer

March 22, 2024

/s/ Kim C. Liddell
Kim C. Liddell

**Exhibit
32.2
CERTIFICATE
PURSUANT
TO
18 U.S.C.
SECTION
1350
AS
ADOPTED
PURSUANT
TO
SECTION
906 OF THE
SARBANES-
OXLEY ACT
OF 2002**

In connection with the Annual Report of Lake Shore Bancorp, Inc. (the “Company”) on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, **Rachel A. Foley, Taylor M. Gilden**, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

March 22, 2024

/s/
Taylor
M.
Gilden
Taylor
M.
Gilden
Chief
Financial
Officer

**LAKE
SHORE
BANCORP,
INC.
CLAWBACK
POLICY**

The Board of Directors (the "Board") of Lake Shore Bancorp, Inc. (the "Company") believes that it is in the best interests of the Company and its shareholders to adopt this Clawback Policy (this "Policy"), which provides for the recovery of certain incentive compensation in the event of an accounting restatement. The Company has adopted this Policy as a supplement to any other clawback policies or provisions in effect now or in the

future
at the
Company.
To the
extent
this
Policy
applies
to
compensation
|
payable
to a
person
covered
by this
Policy,
it shall
supersede
any
other
conflicting
|
provision
or
policy
maintained
by the
Company
and
shall
be the
only
clawback
policy
applicable
to
such
compensation
and
no
other
clawback
policy
shall
apply;
provided
that, if
such
other
policy
or
provision
|

provides
that a
greater
amount
of
such
compensation
shall
be
subject
to
clawback,
such
other
policy
or
provision
shall
apply
to the
amount
in
excess
of the
amount
|
subject
to
clawback
under
this
Policy.

This Policy shall be interpreted to comply with the clawback rules found in 17 C.F.R. §240.10D and the related listing rules of the national securities exchange or national securities association (the "Exchange") on which the Company has listed securities, and, to the extent this Policy is any manner deemed inconsistent with such rules, this Policy shall be treated as retroactively amended to be compliant with such rules.

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

1. Definitions.
(a) "Executive Officer" means the Company's

president,
principal
financial
officer,
principal
accounting
officer
(or if
there
is no
such
accounting
officer,
the
controller),
any
vice-
president
of the
Company
in
charge
of a
principal
business
unit,
division,
or
function
(such
as
sales,
administration,
or
finance),
any
other
officer
who
performs
a
policy-
making
function,
or any
other
person

who
performs
|
similar
policy-
making
|
functions
for
the
Company.
An
executive
officer
of the
Company's
|
parent
or
subsidiary
is
deemed
an
"Executive
|
Officer"
if the
executive
officer
performs
policy
making
|
functions
for
the
Company.
(b)
"Financial
Reporting
Measure"
means any
measure
that is
determined
and
presented
in
accordance
with the
accounting
principles
used in
preparing

the Company's financial statements, and any measure that is derived wholly or in part from such measure; provided, however, that a Financial Reporting Measure is not required to be presented within the Company's financial statements or included in a filing with the Securities and Exchange Commission to qualify as a "Financial Reporting Measure." For purposes of this Policy, "Financial Reporting Measure" includes, but is not limited to, stock price and total shareholder return.

(c) "Incentive-Based Compensation" means any compensation that is granted, earned, or

vested based wholly or in part upon the attainment of a Financial Reporting Measure. (d) "Received" means incentive-based compensation received in the Company's fiscal period during which the Financial Reporting Measure specified in the incentive-based compensation award is attained, even if the payment or grant of the incentive-based compensation occurs after the end of that period.

2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

is of
required the
to Company
prepare as
an of
accounting the
| dates
restatement and
due to for
its the
material periods
| covered
noncompliance by
with the
any Report.
financial
|
reporting
|
requirement
under
the
Federal
|
securities
laws,
including
any
required
|
accounting
|
restatement
to
correct
an
error
in
previously
|
issued
financial
|
statements
that is
material
to the
previously
|
issued
financial
|
statements,
or that

would
result
in a
material
|
misstatement
if the
error
were
corrected
in the
current
period
or left
uncorrected
in the
current
period.
3.
Recovery
|
Period.
The
Incentive-
Based
Compensation
|
subject
to
clawback
is the
Incentive-
Based
Compensation
|
Received
during
the
three
completed
fiscal
years
immediately
|
preceding
the
date
that
the
Company
is
required
to
prepare

an
accounting
|
restatement
as
described
in
Section
2;
provided
that
the
individual
|
served
as an
Executive
|
Officer
at any
time
during
the
performance
period
applicable
to the
Incentive-
Based
Compensation
in
question.
The
date
that
the
Company
is
required
to
prepare
an
accounting
|
restatement
shall
be
determined
|
pursuant
to 17
C.F.R.
§240.10D-

1(b)(1)
(ii).
(a)
Notwithstanding
the foregoing,
the Policy shall
only apply if the
Incentive-
Based
Compensation
is Received (1)
while the
Company has a
class of
securities listed
on an
Exchange and
(2) on or after
October 2,
2023.
(b)
See
17
C.F.R.
§240.10D-
1(b)
(1)(i)
(D) for
certain
|
circumstances
under
which
this
Policy
will
apply
to
Incentive-
Based
Compensation
|
received
|
during
a
transition
|
period
arising
due
to a
change
in the

Company's
fiscal
year.
4.
Erroneously
|
Awarded
|
Compensation.
The
amount
of
Incentive-
Based
Compensation
|
subject
to the
Policy
("Erroneously
|
Awarded
|
Compensation")
is the
amount
of
Incentive-
Based
Compensation
|
Received
that
exceeds
the
amount
of
Incentive
|
Based-
Compensation
that
otherwise
would
have
been
Received
had it
been
determined
based
on the
restated
|

amounts
in the
Company's
|
financial
|
statements
and
shall
be
computed
|
without
|
regard
to any
taxes
paid.
(a)
For
Incentive-
Based
Compensation
|
based
on
stock
price
or
total
shareholder
|
return,
where
the
amount
of
Erroneously
|
Awarded
|
Compensation
is not
subject
to
mathematical
|
recalculation
|
directly
from
the
information
in an

accounting
|
restatement;
(1)
the
amount
shall
be
based
on a
reasonable
|
estimate
of the
effect
of the
accounting
|
restatement
on
the
stock
price
or
total
shareholder
return
upon
which
the
Incentive-
Based
Compensation
was
received;
and
(2) the
Company
must
maintain
|
documentation
of the
determination
of
that
reasonable
|
estimate
and
provide
such
documentation

to the
Exchange.
5.
Recovery
|
Exceptions.
The
Company
shall
recover
|
reasonably
|
promptly
any
Erroneously
|
Awarded
|
Compensation
|
except
to the
extent
that
the
conditions
of
paragraphs
(a),
(b), or
(c)
below
apply.
The
Compensation
|
Committee
of the
Board
of
Directors
(the
"Committee")
shall
determine
the
repayment
|
schedule
for
each
amount
of

Erroneously
|
Awarded
|
Compensation
in a
manner
that
complies
with
this
"reasonably
|
promptly"
|
requirement.
Such
determination
shall
be
consistent
with
any
applicable
legal
guidance,
by the
Securities
and
Exchange
|
Commission,
|
judicial
opinion,
or
otherwise.
The
determination
of
"reasonably
|
promptly"
may
vary
from
case
to
case
and
the
Committee
is
authorized

to
adopt
additional
rules
to
further
describe
what
repayment
|
schedules
satisfy
this
requirement.
(a)
Erroneously
|
Awarded
|
Compensation
need
not be
recovered
if the
direct
expense
paid
to a
third
party
to
assist
in
enforcing
the
Policy
would
exceed
the
amount
to be
recovered
and
the
Committee
has
made
a
determination
that
recovery
would
be
impracticable.

Before

concluding
that it
would
be
impracticable
to
recover
any
amount
of
Erroneously
Awarded
Compensation
based
on
expense
of
enforcement,
the
Company
shall
make
a
reasonable
attempt
to
recover
such
Erroneously
Awarded
Compensation,
document
such
reasonable
attempt(s)

to
recover,
and
provide
that
documentation
to the
Exchange,
as
required.
(b) If
applicable,
|
Erroneously
|
Awarded
|
Compensation
need
not be
recovered
if
recovery
would
violate
home
country
law
where
that
law
was
adopted
prior
to
November
28,
2022.
Before
|
concluding
that it
would
be
impracticable
to
recover
any
amount
of
Erroneously
|
Awarded
|

Compensation
|
based
on
violation
of
home
country
law,
the
Company
shall
obtain
an
opinion
of
home
country
|
counsel,
|
acceptable
to the
Exchange,
that
recovery
would
result
in
such
a
violation
and
shall
provide
such
opinion
to the
Exchange.
(c)
Erroneously
|
Awarded
|
Compensation
need
not be
recovered
if
recovery
would
likely
cause
an

otherwise
tax-
qualified
|
retirement
plan,
under
which
benefits
are
broadly
|
available
to
employees
of the
Company,
to fail
to
meet
the
requirements
of 26
U.S.C.
|
§401(a)
(13)
or 26
U.S.C.
|
§411(a)
and
regulations
|
thereunder.
6.
Committee
|
Decisions.Decisions
of the
Committee
with
respect
to this
Policy
shall
be
final,
conclusive
and
binding
on all
Executive
|

Officers
|
subject
to this
Policy,
unless
determined
by a
court
of
competent
|
jurisdiction
to be
an
abuse
of
discretion.
7. No
Indemnification.
|
Notwithstanding
|
anything
to the
contrary
in any
other
policy
of the
Company
or any
agreement
|
between
the
Company
and
an
Executive
|
Officer,
no
Executive
|
Officer
shall
be
indemnified
by the
Company
|
against
the

loss of
any
Erroneously
|
Awarded
|
Compensation.
8.
Agreement
to
Policy
by
Executive
|
Officers.
The
Committee
shall
take
reasonable
steps
to
inform
Executive
|
Officers
of this
Policy
and
the
Executive
|
Officers
shall
acknowledge
|
receipt
and
adherence
to this
Policy
in
writing.
9.
Exhibit
Filing
Requirement.
A
copy
of this
Policy
and
any
amendments

thereto
shall
be
filed
as an
exhibit
to the
Company's

annual
report
on
Form
10-K.
10.
Amendment.

The
Board
may
amend,

modify
or
supplement
all or
any
portion
of this
Policy
at any
time
and
from
time to
time in
its
discretion.

[TO BE
SIGNED BY
EACH OF
THE
COMPANY'S

EXECUTIVE
OFFICERS]

Clawback Policy

Acknowledgment

I, the
undersigned,
agree
and
acknowledge
that I
am
fully
bound
by, and
subject
to, all
of the
terms
and
conditions
of
Lake
Shore
Bancorp,
Inc.'s
Clawback
Policy
(as
may be
amended,
|
restated,
|
supplemented
or
otherwise
|
modified
from
time to
time,
the
"Policy")
and
that I
have
been
provided
a copy
of the
Policy.
In the
event
of any

inconsistency
|
between
the
Policy
and
the
terms
of any
employment
or
similar
agreement
to
which I
am a
party,
or the
terms
of any
compensation
plan,
program
or
agreement
under
which
any
compensation
has
been
granted,
|
awarded,
|
earned
or
paid,
the
terms
of the
Policy
shall
govern.
If the
Committee
|
determines
that
any
amounts
|
granted,
|

awarded,
I
earned
or paid
to me
must
be
forfeited
or
reimbursed
to the
Company,
I will
promptly
take
any
action
necessary
to
effectuate
such
forfeiture
and/or
reimbursement.

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V
Rachel
A.
Foley

Chief
Financial
Officer

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